

Mawarid Finance P.J.S.C.
Consolidated Financial Statements
for the year ended 31 December 2019

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Directors' Report:

On behalf of Mawarid Finance Board of Directors, we are pleased to announce that Mawarid Finance PJSC Financial results show continued focus on our core business model, even if the overall results are not immediately obvious as these have been impacted by fair value losses on investment in properties, credit provisioning on our financing segment, share of our loss from our investments in Associates and losses from our strategic investment in subsidiaries.

The financial performance for the period ended 31 December 2019 underscores the fact that plans to turn Mawarid Finance around by significantly transforming its operations which are now underway. In these testing times, it takes a well-defined strategy to achieve sustainable growth; a balanced management approach to deliver core business performance; due diligence to mitigate risk and prudent growth to maintain prime assets quality; underpinned by deep understanding of operating environments to drive product and service innovation.

Performance Overview:

The year 2019, was marked with weak economic environment leading to sharp decline in property prices in UAE. This was coupled with the new finance company regulation introduced by the central bank with a large number of restrictions and limitations on finance company activities.

We believe in building on firm foundation and do not compromise future success for short-term gains. We rigorously adhere to its core operating philosophy of revenue growth with sustainability and diversification, intelligent cost control and conservative provisioning.

- Consolidated net loss, attributable to equity shareholders of the parent, for the Year 2019 of AED 76.70 million as against net loss of AED 95.08 million in 2018 ,
- Total Balance sheet footing decreased by AED 100.05 million representing a 7% drop to reach AED 1.33 Billion (2018: AED 1.43 Billion) due to significant devaluation of the property values, credit provisioning and share of our loss from our investments in Associates and subsidiaries.
- Despite the new regulations on Labour Guarantee which actually resulted in a major rundown on our liability book, we were successful in containing the rundown by only 20% of our Wakala portfolio. Customers' deposits in the form of Wakala deposits were down by 20% to reach AED 436.61 million (2018: AED 542.87 million) ,
- While Wakala deposits were down by 20% (AED 106 Mn), financing portfolio was sustained and was reduced by 6% (AED 14 Mn).
- Despite the liquidity constraints, we continued our focus on strategic investments and supported PIMC hospital in Abu Dhabi with all the working capital requirements and the hospital business is now expected to breakeven in Q2 of 2020. We expect a robust growth in this business in 2020 and beyond.



As the business combinations offered by our model becomes more apparent and as regional markets improve, we expect opportunities to secure rewarding deals for our shareholders in the coming years.

Finally, our success is attributed to our clients for their loyalty. The vision and assistance of our different regulators, particularly Central Bank of UAE and the Sharia Supervisory Board, has also been indispensable to achieve our progress.

It's once again my pleasure to thank our shareholders and clients for their continuing support and for the trust shown in our ability to service their needs across Mawarid Finance PJSC.

Despite continued uncertainty in terms of the timing, pace and scope of economic recovery issue, Mawarid Finance and its board of Directors are cautiously optimistic of maintaining its progress and expect positive performance in the upcoming years.

Allah the Almighty is the purveyor of all success

Omran Al Owais
Chairman



INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Mawarid Finance PJSC
Dubai
United Arab Emirates**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of **Mawarid Finance PJSC** (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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* (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's 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.

Other matter

The Group's consolidated financial statements for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion thereon in its report dated 26 March 2019.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mawarid Finance PJSC (continued)

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

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 International Financial Reporting Standards and their preparation in compliance with the applicable provisions of 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.

The Board of Directors and the Audit Committee 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.



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mawarid Finance PJSC (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 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 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 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 disclosure 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 represents 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 Board of Directors and Audit Committee 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 Board of Directors and Audit Committee 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.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mawarid Finance PJSC (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Company has maintained proper books of account;
- the financial information included in the Board of Directors' Report is consistent with the books of account of the Company;
- as disclosed in note 15 to the consolidated financial statements, the Group has not purchased or invested in any shares during the financial year ended 31 December 2019;
- note 35 to the consolidated financial statements discloses material related party transactions and balances, the terms under which they were conducted; and
- 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 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019.

Deloitte & Touche (M.E.)



Akbar Ahmad
Registration No. 1141
13 May 2020
Dubai
United Arab Emirates

Mawarid Finance P.J.S.C.

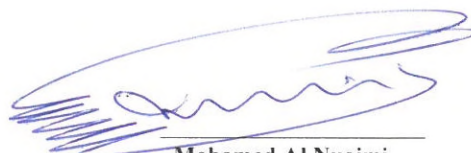
Consolidated statement of financial position

as at 31 December 2019

		31 December	31 December	1 January
		2019	2018	2018
	<i>Note</i>	AED '000	AED '000	AED '000
			<i>(restated)</i>	<i>(restated)</i>
Assets				
Cash and balances with banks and financial institutions	11	48,769	113,283	183,884
Financing and investing assets	13	216,648	230,706	289,323
Investment properties	14	199,866	203,303	214,512
Investment securities	15	264,360	303,425	350,686
Equity accounted investees	16	275,117	292,218	295,469
Goodwill	17	9,132	9,132	9,132
Property and equipment	18	179,167	102,402	142,617
Intangible assets	19	79,436	82,402	6,050
Other assets	20	57,716	93,396	133,242
TOTAL ASSETS		1,330,211	1,430,267	1,624,915
Equity and liabilities				
Equity				
Share capital	21	1,000,000	1,000,000	1,000,000
Treasury shares	21	(12,750)	(11,500)	(11,500)
Statutory reserve	22	40,659	40,659	40,659
General reserve	23	40,659	40,659	40,659
Investment revaluation reserve		(24,566)	(20,940)	32,589
Impairment reserve	13	19,620	20,776	12,909
Accumulated losses		(368,295)	(292,745)	(189,792)
Attributable to equity holders of the Parent		695,327	776,909	925,524
Non-controlling interest	24	(7,209)	1,534	4,964
Total equity		688,118	778,443	930,488
Liabilities				
Wakalah deposits	25	436,611	542,869	578,220
Other liabilities	26	75,494	108,955	116,207
Bank borrowing	27	129,988	-	-
Total liabilities		642,093	651,824	694,427
TOTAL EQUITY AND LIABILITIES		1,330,211	1,430,267	1,624,915



Omran Al - Owais
Chairman



Mohamed Al Nuaimi
Managing Director & CEO

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

Mawarid Finance P.J.S.C.

Consolidated statement of profit or loss

for the year ended 31 December 2019

		31 December 2019	31 December 2018
	<i>Note</i>	AED '000	AED '000 <i>(restated)</i>
Continuing operations			
Profit from financing and investing assets	28	25,240	36,455
Profit from Islamic deposits and wakalah placements	29	1,265	1,780
Revenue from IT services	31	19,135	20,883
Unrealised loss on revaluation of investment properties / foreclosed assets	30	(16,013)	(70,409)
Gain / (loss) on investment carried at FVTPL		9,073	(2,298)
Other income	32	29,182	48,044
Total income		67,882	34,455
General and administrative expenses	33	(111,610)	(105,389)
Cost of sales relating to IT services	31	(3,225)	(4,403)
Impairment of property and equipment	18	(5,399)	-
Total expenses		(120,234)	(109,792)
Depositors' share of profit		(1,726)	(2,147)
Provision charge on impairment	13	(10,255)	(14,785)
Finance cost	27	(2,532)	-
Loss before share of equity accounted investees for the year		(66,865)	(92,269)
Share of loss from equity accounted investees	16	(17,101)	(3,251)
Loss from continuing operations		(83,966)	(95,520)
Discontinued operation			
Loss from discontinued operation	34	(831)	(3,140)
Loss for the year		(84,797)	(98,660)
Attributable to:			
Equity holders of the Parent		(76,706)	(95,086)
Non-controlling interest	24	(8,091)	(3,574)
		(84,797)	(98,660)

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

Mawarid Finance P.J.S.C.

Consolidated statement of other comprehensive income

for the year ended 31 December 2019

	31 December 2019	31 December 2018
	AED '000	AED '000 <i>(restated)</i>
Loss for the year	(84,797)	(98,660)
Other comprehensive income:		
<i>Items that will never be reclassified to the consolidated statement of profit or loss:</i>		
Fair value movement in investment at fair value through other comprehensive income	(3,626)	(53,529)
Total comprehensive loss for the year	(88,423)	(152,189)
Total comprehensive loss attributable to:		
Equity holders of the Parent	(80,332)	(148,615)
Non-controlling interest	(8,091)	(3,574)
Total comprehensive loss for the year	(88,423)	(152,189)

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

Mawarid Finance P.J.S.C.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	<i>Available to equity holders of the Parent</i>							Non-controlling interest	Total	
	Share capital	Treasury shares	Statutory reserve	General reserve	Investment revaluation reserve	Impairment loss / reserve	Accumulated retained earning			
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000			
Balance at 1 January 2019	1,000,000	(11,500)	40,659	40,659	(20,940)	20,776	(292,745)	776,909	1,534	778,443
Loss for the year	-	-	-	-	-	-	(76,706)	(76,706)	(8,091)	(84,797)
IFRS 9 reserve movement (refer note 13)	-	-	-	-	-	(1,156)	1,156	-	-	-
Purchase of treasury shares	-	(1,250)	-	-	-	-	-	(1,250)	-	(1,250)
Other comprehensive income	-	-	-	-	(3,626)	-	-	(3,626)	-	(3,626)
Total comprehensive loss for the year	-	(1,250)	-	-	(3,626)	(1,156)	(75,550)	(81,582)	(8,091)	(89,673)
<i>Transactions with owners of the Group</i>										
Movement in NCI	-	-	-	-	-	-	-	-	(652)	(652)
Balance at 31 December 2019	1,000,000	(12,750)	40,659	40,659	(24,566)	19,620	(368,295)	695,327	(7,209)	688,118
Balance at 1 January 2018	1,000,000	(11,500)	40,659	40,659	32,589	-	(184,941)	917,466	4,964	922,430
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	12,909	(3,352)	9,557	-	9,557
Impact of adopting IFRS 15 at 1 January 2018	-	-	-	-	-	-	(1,499)	(1,499)	-	(1,499)
Restated balance at 1 January 2018	1,000,000	(11,500)	40,659	40,659	32,589	12,909	(189,792)	925,524	4,964	930,488
Loss for the year	-	-	-	-	-	-	(95,086)	(95,086)	(3,574)	(98,660)
IFRS 9 reserve movement (refer note 13)	-	-	-	-	-	7,867	(7,867)	-	-	-
Other comprehensive income	-	-	-	-	(53,529)	-	-	(53,529)	-	(53,529)
Total comprehensive loss for the year	-	-	-	-	(53,529)	7,867	(102,953)	(148,615)	(3,574)	(152,189)
<i>Transactions with owners of the Group</i>										
Acquisition of Subsidiary	-	-	-	-	-	-	-	-	144	144
Balance at 31 December 2018	1,000,000	(11,500)	40,659	40,659	(20,940)	20,776	(292,745)	776,909	1,534	778,443

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

Mawarid Finance P.J.S.C.
Consolidated statement of cash flows
for the year ended 31 December 2019

	31 December	31 December
	2019	2018
<i>Note</i>	AED '000	AED '000
		<i>(restated)</i>
Cash flows from operating activities		
Loss for the year	(84,797)	(98,660)
Adjustments for:		
Depreciation of property and equipment	18 8,354	5,136
Impairment of Property and equipment	18 5,399	-
Amortisation of intangible assets	19 2,966	2,956
Profit from Islamic deposits and wakalah placements	29 (1,265)	(1,780)
Depositors' share of profit	1,726	2,147
Finance cost	27 2,532	-
Loss from equity accounted investees	16 17,101	3,251
Provision made against financing and investing assets	13 10,255	25,852
Unrealised loss on investment properties / foreclosed assets	30 16,013	70,409
Realised loss on sale of foreclosed assets	32 1,469	2,516
Provision for properties acquired as debt settlement	33 9,079	-
Gain from bargain purchase on acquisition of BML Technology LLC	-	(25,407)
	(11,168)	(13,580)
Changes in:		
Islamic deposits with banks and other financial institutions	1,524	59,618
Financing and investing assets	3,803	32,765
Other assets	16,606	38,291
Wakalah deposits	(106,258)	(35,351)
Other liabilities	(34,107)	(22,202)
Cash (used in) / generated from operating activities	(129,600)	59,541
Depositors' share of profit paid	(1,726)	(2,147)
Net cash (used in) / generated from operating activities	(131,326)	57,394
Cash flows from investing activities		
Purchase of property and equipment	18 (99,518)	(17,762)
Proceeds from disposal of foreclosed assets	4,950	5,475
Movement in investment securities	35,439	(6,041)
Purchase of intangible assets	19 -	(1,054)
Profit received on Islamic deposits and wakalah placements	29 1,265	1,780
Acquisition of subsidiary	-	(55,102)
Net cash used in investing activities	(57,864)	(72,704)
Cash flows from financing activities		
Net proceeds from borrowing	27 129,188	-
Finance cost paid	27 (1,732)	-
Dividend paid	(6)	(855)
Net Proceeds from deposits	8,255	-
Purchase of treasury shares	(1,250)	-
Net cash generated from / (used in) financing activities	134,455	(855)
Net decrease in cash and cash equivalents	(54,735)	(16,165)
Cash and cash equivalents at the beginning of the year	96,675	112,840
Cash and cash equivalents at the end of the year	12 41,940	96,675

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

1 Establishment and operations

Mawarid Finance P.J.S.C. (the “Company”) was registered on 4 December 2006 as a Private Joint Stock in accordance with UAE Federal Law No. 8 of 1984, as amended, and replaced by Federal Law No. 2 of 2015. The address of the Company’s registered office is P.O. Box 212121, Dubai, United Arab Emirates (“UAE”).

The Company is licensed by the Central Bank of the UAE as a finance company and is primarily engaged in Islamic Shari’a compliant financing and investment activities involving products such as Ijara, Forward Ijara, Murabaha, Musharaka and Wakalah. The activities of the Company are conducted in accordance with Islamic Shari’a, which prohibits usury, and as per the provisions of its Memorandum and Articles of

The consolidated financial statements includes the results of the operations of the Company, its subsidiaries and equity accounted investees (collectively referred to as “the Group”). Details of the Company’s subsidiaries and equity accounted investees are mentioned in note 24 and note 16 of these consolidated financial statements.

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

2.1 New and amended IFRS Standards that are effective for the current year

In the current year, the Group, for the first time, has adopted IFRS 16 Leases (as issued by the IASB in January 2016). The standard replaces the existing guidance on leases, including IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

Financial impact of initial application of IFRS 16

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor. The impact of the adoption of IFRS 16 on the Group’s consolidated financial statements is described below. The date of initial application of IFRS 16 for the Group is 1 January 2019.

The date of initial application of IFRS 16 for the Group is 1 January 2019, on which date the Group does not have any impact as there were no leases at that time which meets the requirements of IFRS 16.

Impact on Lessee Accounting

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). The new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

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

2.1 New and amended IFRS Standards that are effective for the current year (*continued*)

Impact on Lessee Accounting (*continued*)

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- b) recognises depreciation of right-of-use assets and interest on lease liabilities in consolidated profit or loss; and
- c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36: *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other administrative expenses' in profit or loss.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, the Group has reclassified certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit loss has been assessed on the finance lease receivables.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

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

2.2 New and amended IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these consolidated financial statements.

New and revised IFRSs	Effective for annual periods beginning on or after
<i>Amendments to IFRS 9 Prepayment Features with Negative Compensation and Modification of financial liabilities</i>	1 January 2019
<p>The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.</p> <p>The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.</p>	
<i>Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures.</i>	1 January 2019
<p>These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> 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.</p>	
<i>Annual Improvements to IFRSs 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>	1 January 2019
<i>Annual Improvements to IFRSs 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>	1 January 2019
<p>The <i>Annual Improvements</i> include amendments to four Standards.</p>	
<i>IAS 12 Income Taxes</i>	1 January 2019
<p>The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.</p>	

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

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

2.2 New and amended IFRS applied with no material effect on the consolidated financial statements (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
<p>IAS 23 <i>Borrowing costs</i></p> <p>The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.</p>	1 January 2019
<p>IFRS 3 <i>Business Combinations</i></p> <p>The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.</p>	1 January 2019
<p>IFRS 11 <i>Joint Arrangements</i></p> <p>The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.</p>	1 January 2019
<p>Amendments to IAS 19 <i>Employee Benefits Plan Amendment, Curtailment or Settlement</i></p> <p>The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements.</p>	1 January 2019
<p>IFRIC 23 <i>Uncertainty over Income Tax Treatments</i></p> <p>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:</p> <ul style="list-style-type: none">· Whether tax treatments should be considered collectively;· Assumptions for taxation authorities' examinations;· The determination of taxable profit (tax loss), tax bases, unused tax· The effect of changes in facts and circumstances.	1 January 2019

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

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

2.3 New and amended IFRSs in issue but not yet effective and not early adopted

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Definition of a Business – Amendments to IFRS 3 <i>Business Combinations</i> The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have ‘the ability to contribute to the creation of outputs’ rather than ‘the ability to create outputs’.	1 January 2020
Amendments to <i>References to the Conceptual Framework in IFRS Standards</i> Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	1 January 2020
IFRS 7 <i>Financial Instruments: Disclosures</i> and IFRS 9 — <i>Financial Instruments</i> Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 17 <i>Insurance Contracts</i> IFRS 17 requires insurance liabilities to be measured at a current fulfilment 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 <i>Insurance Contracts</i> as at January 1, 2022.	1 January 2022
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (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 Group’s consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 16 as highlighted in previous paragraphs, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

3 Basis of preparation

3.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and applicable law of UAE Federal Law No. 2 of 2015.

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following which are measured at fair value:

- i) financial instruments at fair value through profit and loss ("FVTPL");
- ii) financial instruments at fair value through other comprehensive income ("FVTOCI"); and
- iii) investment properties.

3.3 Functional and presentation currency

These consolidated financial statements have been prepared in United Arab Emirates Dirham (AED) rounded to nearest thousand, which is the Group's functional and presentation currency.

3.4 Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

3.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and equity accounted investees. Subsidiaries are entities controlled by the Group.

(i) Subsidiary

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.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

3 Basis of preparation *(continued)*

3.5 Basis of consolidation *(continued)*

(i) *Subsidiary (continued)*

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of the Group from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 interest (NCI). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the cumulative translation differences recorded in equity;
- Derecognises the carrying amount of any non-controlling interest;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of profit or loss; and
- Reclassifies the parent's share of components previously recognised in consolidated OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent measurement.

(ii) *Equity accounted investees*

The Group's interest in equity accounted investees comprises interest in associates. An equity accounted investee 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.

The Group's investment in its associate is accounted for using the equity method.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

3 Basis of preparation *(continued)*

3.5 Basis of consolidation *(continued)*

(ii) *Equity accounted investees (continued)*

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.

The consolidated statement of profit or loss 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 OCI. 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 consolidated statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit or loss from equity accounted investees'.

Estimating recoverable amount involves making an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

(iii) *Non-controlling interests ("NCI")*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) *Transactions eliminated on consolidation*

Intra-group balances and income and expenses (except for foreign currency translation gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

4 Islamic shari'a definitions

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

Shari'a

Shari'a is the Islamic law which is essentially derived from the Quran and Sunnah that governs beliefs and conducts of human beings. The Group, incorporates the Shari'a rules and principles in its business activities.

Ijarah

An agreement whereby the Group (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing/acquiring the specified asset, either from a third party seller or from the customer, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

Forward Ijarah

Forward Ijarah (Ijarah Mausoofa Fiz Zimma) is an agreement whereby the Group (the "Lessor") agrees to provide, on a specified future date, a certain described asset on lease to its customer (the "Lessee") upon its completion and delivery by the developer, contractor or customer, from whom the Group has purchased the same, by way of Istisna.

The Forward Ijarah agreement specifies the description of the leased asset, duration of the lease term, and the basis for rental calculation and the timing of rental payment.

During the construction period, the Group pays to the developer/contractor one payment or multiple payments, Forward Ijarah profit during the construction period will be accounted for on a time-apportioned basis over the construction period on account of rentals. These profit amounts are received either during the construction period as advance rental payment or with the first or second rental payment after the commencement of the lease.

The lease rental under Forward Ijarah commences only upon the Lessee having received possession of the leased asset from the Lessor, which is when the asset moves to Ijarah.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

4 Islamic shari'a definitions (*continued*)

Murabaha

A contract whereby the Group (the “Seller”) sells an asset to its customer (the “Purchaser”), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

Mudaraba

A contract between two parties whereby one party is a fund provider (the “Rab Al Mal”) who would provide a certain amount of funds (the “Mudaraba Capital”), to the other party (the “Mudarib”). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Wakalah

An agreement between two parties whereby one party is a fund provider (the “Muwakkil”) who provides a certain amount of money (the “Wakala Capital”) to an agent (the “Wakeel”), who invests the Wakala Capital in a Sharia’a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the “Wakala Fee”) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

Sukuk

These comprise asset backed, Sharia’a compliant trust certificates.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

4 Islamic shari'a definitions (continued)

Musharaka

An agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration/distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally accounted for on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner's negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

5 Significant accounting policies

5.1 Financial Instruments

5.1.1 Financial assets

a) Classification

The Group classifies financial assets on initial recognition in the following categories:

- (i) Amortised cost;
- (ii) Fair value through other comprehensive income (FVTOCI); and
- (iii) Fair value through profit or loss (FVTPL).

The above classification is based on both:

- o the entity's business model for managing the assets; and
- o the instrument's contractual cash flow characteristics.

Business model assessment

The Group makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the entity considers all relevant information available at the date of the assessment. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit income, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio and the financial asset held within the portfolio is evaluated and reported to the management.
- The risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

a) Classification (continued)

Assessment whether contractual cash flows is solely payments of principal and profit (SPPP)

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument.

For the purpose 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 lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash from specified assets;
- features that modify consideration of the time value of money (e.g. periodical reset of profit rates).

Non-recourse financing

In some cases, financings made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The group applies judgment in assessing whether the non-recourse financing meet the SPPP criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the financing;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse financing;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

(i) *Financial assets at amortized cost*

A debt instrument, including financing and investing asset is classified as being measured at amortized cost 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 to hold financial assets in order 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.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

a) Classification (continued)

(ii) *Financial assets at fair value through other comprehensive income (FVTOCI)*

A debt instrument is classified as being measured at FVTOCI if it meets the following two conditions and the debt instrument is not designated 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.

The Group measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. This election is made on an investment-by-investment basis.

(iii) *Financial assets at fair value through profit or loss (FTVPL)*

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL.

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

b) Subsequent measurement

Financial assets at FVTPL and FVTOCI

Financial asset classified as at FVTOCI or FVTPL are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortized cost using the effective profit method, less expected credit allowances.

c) 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. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current and previous financial year there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification of financial assets' and 'Derecognition of financial assets' described in note 5.1.1 (n) and 5.1.1 (o) respectively.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

d) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item;
- for debt instruments measured at FVTOCI (2017: AFS debt investment) that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in the consolidated statement of profit or loss in the 'net gains from foreign exchange and derivatives' line item.
- for equity instruments measured at FVTOCI (2017: AFS equity investment), exchange differences are recognised in OCI in the investments revaluation reserve; and
- for financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in consolidated statement of profit or loss in 'net gains from investments at FVTPL'.

e) Impairment

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Balances with banks and financial institution;
- Financing and investing assets;
- Other assets (excluding prepayments and foreclosed assets); and
- Financing commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

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

Stage 1: When financial assets are first recognised, the Group recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument' that are possible within the 12 months after the reporting date.

Stage 2: When financial assets has shown a significant increase in credit risk since origination, the Group records an allowance for the life time expected credit losses (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3: Financial assets considered credit-impaired. The group records an allowance for the LTECLs.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

e) Impairment (continued)

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for 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 arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate (EPR); and
- 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.

However, for unfunded exposures, ECL is measured as follows:

- for undrawn financing commitments, as the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the financing and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of financing and investing assets that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EPR, regardless of whether it is measured on an individual basis or a collective basis.

The key inputs into the measurement of ECL are the term structures of the following variables:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

These parameters are generally derived from internally developed statistical models, other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

e) Impairment (continued)

- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term of maturity;
- industry; and
- geography location of the borrower.

The groupings are subject to regular review to ensure that exposure within a particular group remain appropriately homogenous.

f) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss for any renegotiated or modified financial assets is measured as follows:-

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective profit rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

g) Purchased or originated credit-impaired (POCI) financial assets

For POCI financial assets, the Group recognises all changes in LTECL since initial recognition as a loss allowance with any changes recognised in consolidated statement of profit or loss. A favourable change for such assets creates an impairment gain.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

h) Default definition

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 5.1.1 (i)).

The Group considers a financial asset to be in default when the borrower is in past due and unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (if any is held).

i) Assessment of significant increase in credit risk

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The assessment is performed on at least quarterly basis for each individual exposure.

Quantitative thresholds are established for the significant increase in the credit based on the movement in grading and days past due.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the probability of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information (refer note 5.1.1 (k)) that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment. The following indicators are incorporated:

- risk grade;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macroeconomic information (such as GDP growth rates, UAE Central Bank 3 months base rate, Inflation and GDP Per Capita etc.) is incorporated as part of the internal rating model.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

j) Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Group has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

k) Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group relies on a broad range of forward looking information as economic inputs such as:

- GDP growth rates;
- UAE Central Bank 3 months base rate;
- Inflation and GDP Per Capita; etc.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 80% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 10% probability of occurring.

l) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for financing commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the financing commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

m) Write-off

The write-off policy of the Group for financing and investing assets mainly includes the following:

- Account which has been uncollectible for more than 5 years;
- Account which has been fully provisioned; and
- All legal recourse options have been fully utilized and the account still remains unpaid.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

n) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPP, change in currency or change of counterparty, the extent of change in profit rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective profit. If the difference in present value is material, the Group deems the arrangement is substantially different leading to derecognition.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants.

If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

n) Modification of financial assets (continued)

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

If the modification of a financial asset measured at amortised cost or FVTOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in the consolidated statement of profit or loss. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit income calculated using the effective profit rate method.

o) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new financing and investing assets is considered to be originated credit impaired. This applies only in the case where the fair value of the financing and investing assets is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain / loss previously recognised in OCI is not subsequently reclassified to consolidated statement of profit or loss.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.1 Financial assets (continued)

o) Derecognition of financial assets (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in OCI is recognised in consolidated statement of profit or loss. A cumulative gain / loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain / loss previously recognised in OCI is not subsequently reclassified to consolidated statement of profit or loss.

5.1.2 Financial liabilities

a) Classification

The Group classifies its financial liabilities, other than financial guarantees and financing and investing assets commitments, as measured at amortised cost.

b) Modification of financial liabilities

The Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective profit rate is not materially different from the discounted present value of the remaining cash flows of the original financial liability.

In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in the consolidated statement of profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognised in the consolidated statement of profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective profit rate on the instrument.

c) Derecognition of financial liabilities

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

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.1 Financial Instruments (continued)

5.1.3 Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

The amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

5.1.4 Financing and investing assets commitments

Financing and investing assets commitments are firm commitments to provide credit under pre-specified terms and conditions. Commitments to provide a financing and investing asset at a below-market profit rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured as follows:

At the higher of the amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

5.2 Financing and investing assets

Financing and investing assets consist of Murabaha receivables, Mudaraba, Musharaka, Wakalah arrangements and Ijarah contracts and they are measured at amortised cost less any amounts written off and allowance for impairment losses.

5.3 Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group at the spot exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.3 Foreign currencies (continued)

Foreign currency transactions (continued)

Foreign currency differences arising on translation are generally recognised in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of non-monetary available for sale equity instruments are recognised in consolidated statement of profit or loss and other comprehensive income.

5.4 Revenue recognition

(i) *Profit income and expense*

Profit income and expense for all profit bearing financial instruments except at FVTPL, are recognised in 'profit income' and 'depositor's share of profit' in the consolidated statement of profit or loss on an accrual basis using the effective profit rates of the financial assets or financial liabilities to which they relate.

Calculation of profit income and expense

The effective profit rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating profit income and expense, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit income is calculated by applying the effective profit rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit income is calculated by applying the credit-adjusted effective profit rate to the amortised cost of the asset. The calculation of profit income does not revert to a gross basis, even if the credit risk of the asset improves.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or 'impairment allowance' before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(ii) *Income on deposit and wakalah placement*

Income earned on deposits and Wakalah placements is recognised on a time-apportioned basis using effective profit rate method.

(iii) *Fees and commission income*

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.4 Revenue recognition (continued)

(iv) Gain / (loss) from investments held at FVTOCI

Net gain from investments at FVTOCI which arises on revaluation is recognised in OCI. Gain or loss resulting from disposal of debt securities at FVTOCI are recognised in the consolidated statement of profit or loss when they occur.

Gain or loss resulting from disposal of equity securities at FVTOCI are recognised in OCI when they occur and the resulting gain / loss is not recycled to consolidated statement of profit or loss even on disposal.

(v) Gain / (loss) from financial investments at FVTPL

Net gain from financial investments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL.

(vi) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease and is recorded under 'other income' in the consolidated statement of profit or loss.

(vii) Dividend income

Dividend income is recognised when the right to receive payment is established. The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVTOCI, dividend income is presented as Dividend Income; and
- for equity instruments at FVTPL, dividend income is presented as 'Net gains from investments at

(viii) Share of profit / (loss) from equity accounted investees

Share of profit / (loss) from equity accounted investees reflects the Group's share of the results of operations of the equity accounted investees.

(ix) Margin trading income

Margin trading income is recognised when the customer utilises the funds provided by the Group. Profit income is recognised in the consolidated statement of profit or loss, using effective profit rate method. The amount is recognised under other income in the consolidated statement of profit or loss.

(x) Allocation of profit

Allocation of profit between the depositors and the shareholders is calculated according to the Group's standard procedures and is approved by the Company's Shari'a Supervisory Board.

(xi) Foreign exchange gain

Exchange gain is recognised at the time of sale and purchase of currencies, issuance of demand drafts, telegraphic transfers and processing remittance transactions. Net gains / losses on currency exchange transactions are recognised when the transactions take place and are recognised in other income in the consolidated statement of profit or loss.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.4 Revenue recognition (continued)

(xii) Revenue from IT Services

Revenue is recognized when the performance obligations of the contracts are satisfied according to IFRS 15. The performance obligation of the contracts related to the sale of software are considered satisfied on the delivery phase.

5.5 Fair value measurement

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.6 Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. On going repairs and maintenance are expensed as incurred.

iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight line method over their useful lives, and is generally recognised in consolidated statement of profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

	Years
Office building	25
Furniture and fixtures	4
Office and IT equipment	3-5
Motor vehicles	5

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of profit or loss.

iv) Capital work in progress

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group's policies.

5.7 Intangible assets and goodwill

i) Goodwill

Goodwill arising on acquisition of subsidiary is measured at cost less accumulated impairment losses.

ii) Research and development

Expenditure on research activities is recognised in consolidated statement of profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in consolidated statement of profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.7 Intangible assets and goodwill (continued)

iii) Intangible assets

Intangible asset acquired in a business combination is identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and fair value can be measured reliably. The cost of such intangible asset is its fair value at the acquisition date.

Subsequent to initial recognition, intangible asset acquired is recorded at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately. The intangible asset is amortised over a period of five years, except for licenses which have infinite useful life, where no amortisation is being charged.

5.8 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the consolidated statement of profit or loss. The Group determines fair value for majority of their properties on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Transfers are made to and from investment properties when, and only when there is change in use evidenced by ending or commencing of owner-occupation, ending or commencement of an operating lease of another party or ending of construction or development.

5.9 Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises cash in hand, un-restricted current accounts balances with banks and financial institutions and Islamic deposits with original maturity of three months or less.

5.10 Impairment of non financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.10 Impairment of non financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in consolidated statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

5.11 Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

5.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows to reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

5.13 Wakalah deposit

Wakalah deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit method. The Group is entering into Wakalah agreement with its customers.

Wakala

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakalah in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakalah. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakalah profit is distributed on declaration/distribution by the Wakil.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.14 Staff terminal benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Contributions to retirement pension for UAE nationals

The Group contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Group's contributions are charged to the consolidated statement of profit or loss in the period to which they relate. In respect of this scheme, the Group has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

5.15 Leasing

Accounting policy from 1 January 2019

The Company as lessee

The Company assesses whether contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.15 Leasing (continued)

Accounting policy from 1 January 2019 (continued)

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Company applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of profit or loss.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

The Group has entered into leasing arrangements which based on the evaluation of the terms and condition of the leasing arrangement has been classified as operating lease. Leases are classified as operating leases if risk and reward incidental to ownership of the leased asset lie with lessor.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

5 Significant accounting policies (continued)

5.15 Leasing (continued)

Accounting policy from 1 January 2019 (continued)

Group as lessor

Asset subjected to operating lease are presented in the consolidated statement of financial position according to the nature of the asset. Income from operating leases are recognised in the consolidated statement of profit or loss on straight line basis over the lease term.

Group as lessee

Lease payments under operating leases are recognised as expense on a straight line basis over the lease term.

5.16 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

5.17 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

6 Key accounting estimates and judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within next financial year and the resultant provisions and fair value. Estimates and judgments 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.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:-

6.1 Going concern

These financial statements have been prepared on a going concern basis which assumes that the Group will continue to have adequate resources to continue in operational existence for the foreseeable future.

The Group incurred a loss after tax of AED 85 million during the year ended 31 December 2019 (2018 loss after tax: AED 99 million) and saw a decrease of AED 54.74 million in its cash resources for the year ended 31 December 2019 (2018: decrease of AED 16.17 million). This decrease in cash resources is mainly attributable to an outflow of Labour Guarantees of AED 106 million (2018: AED 35 million) as a result of economic reforms approved by UAE Cabinet with aim to release AED14 billion back to the private sector companies & lower the cost of doing business.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

6 Key accounting estimates and judgments (continued)

6.1 Going concern (continued)

The Board of Directors have assessed the Group's financial position, its financial performance and its cash flows for a period of not less than 12 months from the date of approval of these financial statements and has a reasonable expectation that it will be able to continue in operational existence for the foreseeable future. At 31 December 2019 the Group has AED 49 million as cash and balances with banks and financial institutions in addition to undrawn facilities of 107million (Note 27).

To overcome any further decrease in cash resources and to ensure the Group is able to meet its ongoing commitment towards Labour Guarantees and working capital needs, the Board has considered various initiatives ranging from the sale of properties to divestment of certain assets to ensure there are enough resources to meet its ongoing commitments.

In addition, the Board has also considered the impact of COVID-19 on the cashflows position and they believe that the Group has enough resources to withstand the impact and if needed will be able to utilize the Central Bank Targeted Economic Support Scheme ("TESS") or raise additional deposits from the market.

After performing the detailed forecast of liquidity referred to above and considering the various options and the likely effectiveness of those actions including the possible effect of COVID-19 on the Group's financial performance, the Board has concluded that there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

6.2 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

6.3 Useful life of property and equipment

The costs of items of property and equipment are depreciated on a systematic basis over the estimated useful lives of the assets. Management has determined the estimated useful lives of each asset and/ or category of assets based on the following factors:-

- expected usage of the assets;
- expected physical wear and tear, which depends on operational and environmental factors; and
- legal or similar limits on the use of the assets.

Management considers the depreciation method utilised reflects the pattern in which the assets' future economic benefits are expected to be consumed by the Group. Management has not made estimates of residual values for any items of property and equipment at the end of their useful lives as these have been deemed to be immaterial.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

6 Key accounting estimates and judgments (continued)

6.4 Valuation of unquoted investments

The Group measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

6.5 Valuation of investment properties and foreclosed assets

The fair value of major investment property and foreclosed assets was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. Other investment properties and foreclosed assets have been assessed internally by the Group.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Group has taken the best use fair values for the fair value measurement of its investment properties and foreclosed assets.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
Investment method	Expected market rental growth Risk adjusted discount rates Free hold property Free of covenants, third party rights and obligations Statutory and legal validity Conditions of the property	The estimated fair value increase / decrease if: Expected market rental growth were higher or lower The risk adjusted discount rates were lower / higher The property is not free hold The property is subject to any covenants, rights and obligation The property is subject to any legal notices / The property is subject to any defect / damages

6.6 Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

6 Key accounting estimates and judgments (continued)

6.7 Significant increase in credit risk

As explained in note 5.1.1 (e), ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

6.8 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 5.1.1 (e) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

6.9 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 5.1.1 (e) for more details on ECL.

6.10 Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Group's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

7 Financial risk management

The Group has exposure to the following risks from financial instruments and its operations:

- i) Credit risk;
- ii) Liquidity risk;
- iii) Market risk; and
- iv) Operational risk

Risk management framework

This note presents information about the Group's objectives, policies and processes for measuring and managing

Management of credit risk

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Group Asset and Liability Management Committee (ALCO), which is responsible for developing and monitoring Group risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee. Internal audit has been outsourced to a professional consultancy firm.

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's financing and investing assets to customers, balances with banks and financial institutions, investment in debt securities, other receivables, financing and investing assets commitments and contingent liabilities. For risk management reporting purposes, credit risk arising on investment securities held at FVTPL is managed independently.

The Board of directors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for managing the Group's credit risk, including the following:-

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Head of Group Credit, the Group Credit Committee or the Board of directors.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

7 Financial risk management (continued)

i) Credit risk (continued)

- Reviewing and assessing credit risk in accordance with authorisation structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.
- Developing and maintaining the Group's risk grading's to categories exposures according to the degree of risk of financial loss faced. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. These grades are similar to and in line with the guidelines of the Central Bank of UAE. The responsibility for setting risk grades lies with the final approving credit committee, as appropriate. Risk grades are subject to regular reviews by Group Risk.

Classification	Grades
Performing	Normal
	Substandard
Non - performing	Claw
	Doubtful
	Loss

Measurement of ECL

As explained in note 5.1.1 (e), the Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk. However, for financial instruments such as credit cards and other financing facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Restructured and renegotiated loans

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

7 Financial risk management (continued)

i) Credit risk (continued)

Exposure to credit risk

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, and expected credit allowances, if any.

31 December 2019

Balances with banks and financial institutions	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing	41,917	-	-	41,917
Allowance for impairment losses*	-	-	-	-
Net Carrying Amount	41,917	-	-	41,917

Financing and investing assets	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Impaired portfolio				
Performing	150,089	45,528	-	195,617
Non-performing	-	-	168,434	168,434
Allowance for impairment losses	(2,217)	(7,918)	(137,268)	(147,403)
Net Carrying Amount	147,872	37,610	31,166	216,648

Other assets (excluding prepayments and foreclosed assets)	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing	24,883	675	40,622	66,180
Allowance for impairment losses	(2)	(532)	(31,205)	(31,739)
Net Carrying Amount	24,881	143	9,417	34,441

Investments in funds at FVTPL	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing	103,718	-	-	103,718
Allowance for impairment losses*	-	-	-	-
Net Carrying Amount	103,718	-	-	103,718

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Notes to the consolidated financial statements
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7 Financial risk management (continued)

i) Credit risk (continued)

Exposure to credit risk (continued)

31 December 2018

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balances with banks and financial institutions				
Performing	105,550	-	-	105,550
Allowance for impairment losses*	-	-	-	-
Net Carrying Amount	<u>105,550</u>	<u>-</u>	<u>-</u>	<u>105,550</u>
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financing and investing assets				
Impaired portfolio				
Performing	142,782	56,602	-	199,384
Non-performing	-	-	171,004	171,004
Allowance for impairment losses	(3,732)	(2,972)	(132,978)	(139,682)
Net Carrying Amount	<u>139,050</u>	<u>53,630</u>	<u>38,026</u>	<u>230,706</u>
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Other assets (excluding prepayments and foreclosed assets)				
Performing	46,957	303	37,363	84,623
Allowance for impairment losses	(1)	(12)	(29,807)	(29,819)
Net Carrying Amount	<u>46,956</u>	<u>291</u>	<u>7,556</u>	<u>54,804</u>
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Investments in funds at FVTPL				
Performing	139,168	-	-	139,168
Allowance for impairment losses*	-	-	-	-
Net Carrying Amount	<u>139,168</u>	<u>-</u>	<u>-</u>	<u>139,168</u>

*The impact of ECL is not material to these consolidated financial statements.

Contingent liabilities forming part of credit risk exposure are shown in note 34.

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	Gross carrying amount AED'000	Expected credit loss AED'000	Gross carrying amount AED'000	Expected credit loss AED'000
Financing and investing assets				
Less than 30 days	150,089	2,217	142,782	3,732
30 - 90 days	45,528	7,918	56,602	2,972
Over 90 days	168,434	137,268	171,004	132,978
Total	<u>364,051</u>	<u>147,403</u>	<u>370,388</u>	<u>139,682</u>

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

7 Financial risk management (continued)

i) Credit risk (continued)

Impaired financing and investing assets

Impaired financing and investing assets are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the financing agreement(s). These financing and investing assets are classified as substandard, doubtful, loss, as appropriate, which is in accordance with the guidelines issued by Central Bank of the UAE.

Past due but not impaired financing and investing assets

These are financing and investing assets where contractual profit or principal payments are past due but the Group believes that impairment is inappropriate on the basis of a genuine repayment source and/or delays in receiving assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Group.

Write-off policy

The write-off policy of the Group for financing and investing assets mainly includes the following:

- Account which has been uncollectible for more than 5 years;
- Account which has been fully provisioned; and
- All legal recourse options have been fully utilized and the account still remains unpaid.

Concentration of Credit Risk

The Group monitors internally concentration of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Group's internal approved guidelines at the reporting date is shown below:-

	Balances with banks and financial institutions		Financing and investing assets and other assets (excluding prepayments and foreclosed assets)		Investments in funds at FVTPL	
	2019	2018	2019	2018	2019	2018
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Carrying amount, net	41,917	105,550	251,089	285,510	103,718	139,168
Concentration by sector:						
- Banks and financial institutions	41,917	105,550	-	-	103,718	139,168
- Retail	-	-	92,132	158,905	-	-
- Corporate	-	-	124,516	71,801	-	-
- Others	-	-	34,441	54,804	-	-
Net total	41,917	105,550	251,089	285,510	103,718	139,168
Concentration by location:						
- United Arab Emirates	20,065	83,745	242,806	274,802	-	-
- Asian countries	13,954	6,786	-	-	-	-
- GCC	-	1	-	-	-	-
- Others	7,898	15,018	8,283	10,708	103,718	139,168
Net total	41,917	105,550	251,089	285,510	103,718	139,168

Contingent liabilities forming part of credit risk exposure are shown in note 34.

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

7 Financial risk management (continued)

ii) Liquidity Risk

Liquidity risk' is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's Board of directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Treasury department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position. A summary report, including any exceptions and remedial action taken, is submitted on a regular basis to ALCO.

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

Exposure to liquidity risk

Details of the Group's net liquid assets are summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayments. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

Maturities of financial assets and financial liabilities

	Less than 3 months AED'000	3 months to 1 year AED'000	From 1 to 5 year AED'000	More than 5 years AED'000	Total AED'000
At 31 December 2019					
Financial assets					
Balances with banks and financial institutions	46,003	-	2,766	-	48,769
Financing and investing assets	39,144	78,859	75,693	22,952	216,648
Investment securities	217	103,718	160,425	-	264,360
Other assets (excluding prepayments and foreclosed assets)	1,292	22,389	10,760	-	34,441
Total financial assets	86,656	204,966	249,644	22,952	564,218
Financial liabilities					
Wakalah deposits	64,400	212,264	159,947	-	436,611
Other liabilities (excluding end of service benefit) and Bank borrowings	26,292	118,860	47,673	8,438	201,262
Total financial liabilities	90,692	331,124	207,620	8,438	637,873

Mawarid Finance P.J.S.C.

Notes to the consolidated financial statements

for the year ended 31 December 2019

7 Financial risk management (continued)

ii) Liquidity Risk (continued)

Maturities of financial assets and financial liabilities (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	From 1 to 5 year AED'000	More than 5 years AED'000	Total AED'000
<u>At 31 December 2018</u>					
<u>Financial assets</u>					
Balances with banks and financial institutions	102,262	-	11,021	-	113,283
Financing and investing assets	64,436	25,342	99,387	41,541	230,706
Investment securities	205	-	303,220	-	303,425
Other assets (excluding prepayments and foreclosed assets)	2,985	29,866	21,953	-	54,804
Total financial assets	169,888	55,208	435,581	41,541	702,218
<u>Financial liabilities</u>					
Wakalah deposits	45,077	119,211	378,581	-	542,869
Other liabilities (excluding end of service benefit)	44,219	24,508	33,364	-	102,091
Total financial liabilities	89,296	143,719	411,945	-	644,960

The Group follows Shari'a principles and contractual returns are not guaranteed and are on profit or loss sharing basis.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, which can be readily available to meet liquidity requirements.

iii) Market Risk

Market Risk is the risk that changes in market prices - such as profit rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) - will affect the Group's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing the return on risk.

Equity price risk

Equity price risk arises from investments in FVTPL and FVTOCI equity investments. The management of the Group monitors the equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the management. The Group manages this risk through diversification of investments in terms of industry distribution.

The primary goal of the Group's investment strategy is to maximise investment returns.

Sensitivity analysis - equity price risk

For investments classified as fair value through other comprehensive income and fair value through profit or loss, a 5% increase as at the reporting date would have increased equity by AED 8 million (31 December 2018: AED 8.2 million) and consolidated statement of profit or loss by AED 5.2 million (31 December 2018: AED 7.0 million) respectively, an equal change in the opposite direction would have decreased equity and consolidated statement of profit or loss by a similar amount.

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7 Financial risk management (continued)

iii) Market Risk (continued)

Profit rate risk

The Group is exposed to profit rate risk on its profit bearing assets and liabilities (financing and investing assets, Islamic deposits and wakalah deposits).

Sensitivity analysis - Profit rate risk

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the Group's profit for the year, based on the financial assets and financial liabilities.

Below are the financial assets and financial liabilities exposed to profit rate risk:

	31 December 2019	31 December 2018
	AED'000	AED'000
<u>Financial assets</u>		
Financing and investing assets	364,051	370,388
Islamic deposits with banks and other financial institutions	3,555	35,000
	<u>367,606</u>	<u>405,388</u>
<u>Financial liability</u>		
Wakalah deposits	(62,493)	(66,657)
	<u>305,113</u>	<u>338,731</u>

A change in the profit rate by 100b.p. would have increased consolidated statement of profit or loss by AED 3.1 million (31 December 2018: AED 3.4 million) and an equal change in the opposite direction would have decreased consolidated statement of profit or loss by a similar amount.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency.

As at the reporting date, the significant foreign currency exposure is in Egyptian Pounds relating to investment in financial assets classified at FVTOCI with a carrying value of AED 96.5 million (31 December 2018 : AED 96.5 million) and in Euro relating to investments in financial assets classified at FVTPL amounting to AED 11.1 million (31 December 2018: AED 31.2 million).

Sensitivity analysis - currency risk

The Group is exposed to currency risk mainly in Egyptian pounds and Euro, as a change of 100 basis points in the AED exchange rate against EGP would have an impact on the equity by AED 1.0 million (31 December 2018: AED 1.0 million) and an equal change in the opposite direction would have decreased equity by a similar amount.

Similarly a change of 100 basis points in the Euro to AED exchange rate would have an impact on the consolidated statement of profit or loss AED 0.11 million (31 December 2018: AED 0.31 million) and an equal change in the opposite direction would have decreased consolidated statement of profit or loss by a similar amount.

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7 Financial risk management (continued)

iv) Operational risk

‘Operational risk’ is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Group has taken measures to put in place tools, firstly to identify all such operational risks. The Group has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Group's reputation.

8 Capital management

The Group’s objectives when managing capital are as follows:

- Safeguard the Group’s ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by Central Bank of the UAE.

The Group’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders’ return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group has complied with all regulatory requirements issued by Central Bank of the UAE during the year, as the minimum share capital required by Central Bank of the UAE is AED 150 million, however, the share capital of the Group throughout the year was AED 1 billion (31 December 2018: AED 1 billion).

9 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

At 31 December 2019	<u>At Fair Value</u>		Amortised	Total
	<u>FVTPL</u>	<u>FVTOCI</u>	cost	
	AED '000	AED '000	AED '000	AED '000
<u>Financial assets</u>				
Cash and balances with banks and financial institution	-	-	48,769	48,769
Financing and investing assets	-	-	216,648	216,648
Investment in securities	103,935	160,425	-	264,360
Other assets (excluding prepayments and foreclosed assets)	-	-	34,441	34,441
	<u>103,935</u>	<u>160,425</u>	<u>299,858</u>	<u>564,218</u>
<u>Financial liabilities</u>				
Wakalah deposits	-	-	436,611	436,611
Other liabilities (excluding employees end of service benefits) and bank borrowings	-	-	201,262	201,262
	<u>-</u>	<u>-</u>	<u>637,873</u>	<u>637,873</u>

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9 Accounting classification of financial assets and financial liabilities (continued)

At 31 December 2018	At Fair Value		Amortised cost	Total
	FVTPL AED '000	AFS AED '000		
<u>Financial assets</u>				
Cash and balances with banks and financial institution	-	-	113,283	113,283
Financing and investing assets	-	-	230,706	230,706
Investment in securities	139,373	164,052	-	303,425
Other assets (excluding prepayments and foreclosed assets)	-	-	54,804	54,804
	<u>139,373</u>	<u>164,052</u>	<u>398,793</u>	<u>702,218</u>
<u>Financial liabilities</u>				
Wakalah deposits	-	-	542,869	542,869
Other liabilities (excluding employees end of service benefits)	-	-	102,091	102,091
	<u>-</u>	<u>-</u>	<u>644,960</u>	<u>644,960</u>

10 Fair value of financial instrument

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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10 Fair value of financial instrument (continued)

Fair value hierarchy of assets measured at fair value

The following table analyses assets measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position.

At 31 December 2019

<u>Financial assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	AED '000	AED '000	AED '000	AED '000
FVTPL - financial assets	217	-	103,718	103,935
FVTOCI - financial assets	-	-	160,425	160,425
	<u>217</u>	<u>-</u>	<u>264,143</u>	<u>264,360</u>
 <u>Non financial assets</u>				
Investment properties	-	49,866	150,000	199,866
Foreclosed assets	-	19,578	-	19,578
	<u>-</u>	<u>69,444</u>	<u>150,000</u>	<u>219,444</u>

At 31 December 2018

<u>Financial assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	AED '000	AED '000	AED '000	AED '000
FVTPL - financial assets	205	-	139,168	139,373
AFS	-	-	164,052	164,052
	<u>205</u>	<u>-</u>	<u>303,220</u>	<u>303,425</u>
 <u>Non financial assets</u>				
Investment properties	-	53,303	150,000	203,303
Foreclosed assets	-	34,949	-	34,949
	<u>-</u>	<u>88,252</u>	<u>150,000</u>	<u>238,252</u>

During the year ended 31 December 2019 (31 December 2018: nil), there were no transfers of any financial asset between any of the levels in fair value hierarchy.

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for financial assets held under level 3 of the fair value hierarchy.

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	<u>FVTPL</u>	<u>FVTOCI</u>	<u>FVTPL</u>	<u>FVTOCI</u>
	AED '000	AED '000	AED '000	AED '000
Balance as at 1 January	139,168	164,052	125,819	214,901
Additions	-	-	23,774	2,680
Disposals	(44,523)	-	(7,431)	-
Change in fair value	9,073	(3,626)	(2,994)	(53,529)
As at 31 December	<u>103,718</u>	<u>160,426</u>	<u>139,168</u>	<u>164,052</u>

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11 Cash and balances with banks and financial institution

		31 December	31 December	1 January
		2019	2018	2018
	<i>Note</i>	AED '000	AED '000	AED '000
Balances with Central Bank of UAE		7,850	38,149	34,008
Current accounts with banks and financial institutions	<i>11.1</i>	27,238	20,793	26,084
Cash in hand	<i>11.2</i>	6,852	7,733	15,970
Islamic deposits with banks and other financial institutions	<i>11.3</i>	4,063	35,587	96,801
Security deposits	<i>11.4</i>	2,766	11,021	11,021
		48,769	113,283	183,884

11.1 Balances with Banks and financial institutions are classified under stage 1 as per IFRS 9. However, there are no material expected credit losses and hence no provision has been recognised.

11.2 Cash in hand mainly comprises of balance held by Mawarid Exchange.

11.3 Average profit rate on Islamic deposits is 2.5% (31 December 2018: 3.0% to 3.25%) per annum. All deposits and amounts are held with financial institutions within the United Arab Emirates.

11.4 Security deposits comprise of balances held as margin deposits with correspondent banks and financial institutions for salary disbursement transactions.

12 Cash and cash equivalents

	31 December	31 December	1 January
	2019	2018	2018
	AED '000	AED '000	AED '000
Cash in hand, at banks and financial institutions	41,940	66,675	76,062
Islamic deposits with original maturity of less than 3 months.	-	30,000	46,000
Less: Client money	-	-	(9,222)
	41,940	96,675	112,840

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13 Financing and investing assets

	31 December 2019	31 December 2018 <i>restated</i>	1 January 2018 <i>restated</i>
	AED '000	AED '000	AED '000
Financing			
Ijarah financing	40,571	54,769	77,300
Commodity murabaha financing	323,480	315,619	344,552
	364,051	370,388	421,852
Allowances for impairment losses	(147,403)	(139,682)	(132,529)
Financing and investing assets – net	216,648	230,706	289,323

An analysis of changes in the gross carrying and the corresponding ECL allowances is as follows:

	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Gross carrying as at 1 January 2019	142,782	56,602	171,004	370,388
Net movement in stages	7,307	(11,074)	(36)	(3,803)
Amounts written off	-	-	(2,534)	(2,534)
At 31 December 2019	150,089	45,528	168,434	364,051
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2019	3,732	2,972	132,978	139,682
Net (reversals) / impairment charge	(1,515)	4,946	6,824	10,255
Amounts written off	-	-	(2,534)	(2,534)
At 31 December 2019	2,217	7,918	137,268	147,403
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Gross carrying as at 1 January 2018	145,921	90,603	185,328	421,852
Net movement in stages	(3,139)	(34,001)	(6,692)	(43,832)
Amounts written off	-	-	(7,632)	(7,632)
At 31 December 2018	142,782	56,602	171,004	370,388
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2018	6,736	1,906	123,887	132,529
Net (reversals) / impairment charge	(3,004)	1,066	16,723	14,785
Amounts written off	-	-	(7,632)	(7,632)
At 31 December 2018	3,732	2,972	132,978	139,682

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13 Financing and investing assets (continued)

Following table summarises 2019 movement of impairment reserve due to changes in the provisions as per CBUAE guidelines and IFRS 9:

	<i>Note</i>	CBUAE Guidelines	IFRS 9	Difference
		AED '000	AED '000	AED '000
Specific provisions	13.1	156,888	137,268	19,620
Collective provisions	13.1	6,800	10,135	(3,335)
Closing balance 31 December 2019		163,688	147,403	19,620

Following table summarises 2018 movement of impairment reserve due to changes in the provisions as per CBUAE guidelines and IFRS 9:

	CBUAE Guidelines	IFRS 9	Difference
	AED'000	AED'000	AED'000
Specific provisions	153,658	132,978	20,680
Collective provisions	6,800	6,704	96
Closing balance 31 December 2018	160,458	139,682	20,776

13.1 As per CBUAE guidelines on implementation of IFRS 9, banks are required to create a reserve under equity transferring from retained earnings only if provision as per CBUAE guideline is greater than ECL as per IFRS 9.

14 Investment properties

	31 December 2019	31 December 2018
	AED '000	AED '000
Balance at 1 January	203,303	214,512
Transfer from property and equipment (note 17)	9,000	52,324
Unrealised loss on revaluation of investment properties	(12,437)	(63,533)
Balance at 31 December	199,866	203,303

14.1 Investment properties related income and expenses

	31 December 2019	31 December 2018
	AED '000	AED '000
Rental income	8,130	9,599
Repairs and maintenance charges	(4,245)	(5,430)

15 Investment securities

	31 December 2019	31 December 2018	1 January 2018
	AED '000	<i>restated</i> AED '000	<i>restated</i> AED '000
Financial assets at FVTPL	103,935	139,373	126,132
Financial assets at FVTOCI	160,425	164,052	224,554
	264,360	303,425	350,686

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15 Investment securities (continued)

15.1 Financial assets at FVTPL

	31 December 2019	31 December 2018	1 January 2018
	AED '000	<i>restated</i> AED '000	<i>restated</i> AED '000
Equity securities-Quoted	217	205	313
Sukuks and Funds	103,718	139,168	125,819
	103,935	139,373	126,132

During the year ended 31 December 2019, the Group has not purchased or invested in any shares or funds (2018: AED 26.45 million).

15.2 Financial assets at FVTOCI

	31 December 2019	31 December 2018	1 January 2018
	AED '000	AED '000	AED '000
Equity securities-Unquoted	160,425	164,052	214,901
Sukuks and Funds	-	-	9,653
	160,425	164,052	224,554

15.3 Geographical concentration of investment securities

	31 December 2019	31 December 2018	1 January 2018
	AED '000	AED '000	AED '000
<i>Within UAE</i>			
Financial assets at FVTPL	7	7	313
Financial assets at FVTOCI	-	-	9,653
	7	7	9,966
<i>Outside UAE</i>			
Financial assets at FVTPL	103,928	139,366	125,819
Financial assets at FVTOCI	160,425	164,052	214,901
	264,353	303,418	340,720
Total investment securities	264,360	303,425	350,686

16 Equity accounted investees

Name	Holding		Country of incorporation	Principal Activities
	31 December 2019	31 December 2018		
Dar Al Takaful P.J.S.C	24.7%	24.7%	UAE	Takaful and retakaful
Mawarid Technology LLC	38.6%	38.6%	UAE	IT, Security services and Card personalisation

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16 Equity accounted investees (continued)

	31 December 2019	31 December 2018	1 January 2018
	AED '000	<i>restated</i> AED '000	<i>restated</i> AED '000
Dar Al Takaful P.J.S.C	43,717	42,615	40,956
Mawarid Technology LLC	231,400	249,603	254,513
	275,117	292,218	295,469
Movement in equity accounted investees:-			
	31 December 2019	31 December 2018	1 January 2018
	AED '000	<i>restated</i> AED '000	<i>restated</i> AED '000
Balance at 1 January	292,218	295,469	298,478
Less: IFRS 9 impact on opening retained earnings	-	-	(1,510)
Less: IFRS 15 impact on opening retained earnings	-	-	(1,499)
Less: Share of loss from equity accounted investees	(17,101)	(3,251)	-
Closing balance as at 31 December	275,117	292,218	295,469

The summarised financial information of the Group's equity accounted investees is as follows:-

	31 December 2019	31 December 2018
	AED '000	AED '000
Total assets	239,260	228,968
Total liabilities	(169,818)	(144,156)
Net assets	69,442	84,812
Share of loss from continuing operations	(17,101)	(3,251)

17 Goodwill

Goodwill arising on acquisition of subsidiaries is allocated to the Group's cash generating unit ("CGU") as follows:-

	31 December 2019	31 December 2018	1 January 2018
	AED '000	AED '000	AED '000
Plus International Medical Centre LLC	9,132	9,132	9,132

- 17.1 The recoverable amount was based on fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

Weighted average cost of capital used was 14% (2018: 12%). The cash flow projections included specific estimates for five years and an estimated EV/EBITDA multiple of 10x (2018: 8x) at exit.

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18 Property and equipment

	Freehold land	Capitl work in progress	Office building	Furniture and fixtures	Office and equipment	Motor vehicles	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
Cost							
At 1 January 2018	86,324	31,382	31,249	8,169	19,715	156	176,995
Additions	-	-	3,991	3,890	9,963	8	17,852
Transfer to :							
- foreclosed assets	-	-	(4,776)	-	-	-	(4,776)
- investment properties	(52,324)	-	-	-	-	-	(52,324)
Transfer	-	(31,382)	31,382	-	-	-	-
On acquisition of subsidiaries:							
- BML Technology LLC	-	-	3,719	1,318	3,397	-	8,434
- Mycon Marketing Management LLC	-	-	-	139	183	-	322
Disposals	-	-	-	(409)	(1,169)	(20)	(1,598)
At 31 December 2018	34,000	-	65,565	13,107	32,089	144	144,905
At 1 January 2019	34,000	-	65,565	13,107	32,089	144	144,905
Additions*	96,301	-	-	1,072	2,090	459	99,922
Transfer to :							
- investment properties	-	-	(22,411)	-	-	-	(22,411)
Disposals	-	-	-	(448)	(8)	(94)	(550)
At 31 December 2019	130,301	-	43,154	13,731	34,171	509	221,866
Depreciation							
At 1 January 2018	-	-	10,928	6,359	16,954	137	34,378
Charge for the year	-	-	1,648	1,310	2,169	9	5,136
Transfer to							
foreclosed assets	-	-	(275)	-	-	-	(275)
On acquisition of subsidiaries:							
- BML Technology LLC	-	-	267	1,227	3,234	-	4,728
- Mycon Marketing Management LLC	-	-	-	15	29	-	44
Disposals	-	-	-	(336)	(1,168)	(4)	(1,508)
At 31 December 2018	-	-	12,568	8,575	21,218	142	42,503
At 1 January 2019	-	-	12,568	8,575	21,218	142	42,503
Charge for the year	-	-	1,752	1,983	4,527	92	8,354
Impairment loss	-	-	5,399	-	-	-	5,399
Transfer to :							
- investment properties	-	-	(13,411)	-	-	-	(13,411)
Disposals	-	-	-	(51)	(8)	(87)	(146)
At 31 December 2019	-	-	6,308	10,507	25,737	147	42,699
Carrying amount							
At 31 December 2018	34,000	-	52,997	4,532	10,871	2	102,402
At 31 December 2019	130,301	-	36,846	3,224	8,434	362	179,167

*Addition in freehold land is financed through the Bank facility against which this plot has been kept as mortgage.

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19 Intangible assets

	31 December 2019	31 December 2018
	AED '000	AED '000
Opening balance as of 1 January	82,402	6,050
Additions	-	1,054
On acquisition of subsidiaries:		
- BML Technology LLC	-	74,936
- Mycon Marketing Management LLC	-	3,318
Amortisation of software cost	(2,966)	(2,956)
At 31 December 2019	<u>79,436</u>	<u>82,402</u>

20 Other assets

		31 December 2019	31 December 2018	1 January 2018
	<i>Note</i>	AED '000	AED '000	AED '000
Advances to suppliers		604	21,933	5,304
Deposits		1,092	1,346	1,430
Staff receivable		688	558	568
Prepayments		3,697	3,643	3,287
Due from customers		25,234	20,607	46,772
Foreclosed assets	<i>20.1</i>	19,578	34,949	44,926
Others		6,823	10,360	30,955
		<u>57,716</u>	<u>93,396</u>	<u>133,242</u>

20.1 Below table shows the movement of foreclosed assets :

	31 December 2019	31 December 2018
	AED '000	AED '000
Balance at 1 January	34,949	44,926
Additions	3,702	-
Transfer from property and equipment (note 18)	-	4,501
Disposals	(4,950)	(5,085)
Unrealised loss on revaluation	(3,576)	(6,877)
Realised loss on sale	(1,468)	(2,516)
Provisions (<i>as per CBUAE guidelines</i>)	(9,079)	-
Balance at 31 December	<u>19,578</u>	<u>34,949</u>

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21 Share capital

	31 December 2019	31 December 2018	1 January 2018
	AED '000	AED '000	AED '000
Authorised issued and paid up capital:			
1 billion ordinary shares of AED 1 each	1,000,000	1,000,000	1,000,000
Treasury shares of AED 1 each	(12,750)	(11,500)	(11,500)

22 Statutory reserve

In accordance with Decretal Federal Law No.(14) of 2018, the Group has established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution. During the year, Group has recorded net loss and as a result, no amount has been transferred to statutory reserve.

23 General reserve

In accordance with the Articles of Association of the Company, 10% of the Group's net profit for the year is transferred to the general reserve until the reserve equals to 50% of the paid up share capital. This reserve may be used for purposes determined by the Ordinary General Assembly pursuant to a proposal by the Board of Directors. During the year, Group has recorded net loss and as a result, no amount has been transferred to general reserve.

24 Subsidiaries

List of Subsidiaries

Name	Holding		Country of incorporation	Principal Activities
	31 December 2019	31 December 2018		
Mawarid Securities	100%	100%	UAE	Brokerage business
MFI Investments LLC	100%	100%	UAE	Holding company
Mawarid Consultancy FZE	100%	100%	UAE	Operational services
Mawarid Exchange	90%	90%	UAE	Money exchange
Plus International Medical Centre LLC	70%	70%	UAE	Medical services
BML Technology LLC	100%	100%	UAE	Software Development & Implementation Services
Mycon Marketing Management LLC	75%	75%	UAE	Staff Outsourcing & Credit Card sales

Acquisition of subsidiaries

Subsidiary acquired during the year 2018 are as follows :

<u>Name of Subsidiary</u>	<u>Date of acquisition</u>	<u>Percentage of ownership</u>
BML Technology LLC	1 January 2018	100%
Mycon Marketing Management LLC	1 April 2018	75%

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24 Subsidiaries (continued)

Non-Controlling interest

The following table summaries the information relating to the Group's subsidiaries which has NCI as at the reporting date, before any intra group eliminations:-

	31 December 2019			
	MYCON Marketing Management LLC	Mawarid Exchange	Plus International Medical Centre LLC	Total
At 31 December 2019	AED '000	AED '000	AED '000	AED '000
NCI percentage	25%	10%	30%	
Non current assets	278	918	6,866	8,062
Current assets	1,498	13,893	4,980	20,371
Current liabilities	(2,677)	(8,363)	(37,275)	(48,315)
Net assets	(901)	6,448	(25,429)	(19,882)
Carrying amount of NCI	(225)	645	(7,629)	(7,209)
	For the year ended 31 December 2019			
Revenue	445	5,942	4,570	10,957
Loss	(1,162)	(3,552)	(24,817)	(29,531)
Total comprehensive loss	(1,162)	(3,552)	(24,817)	(29,531)
Loss allocated to NCI	(291)	(355)	(7,445)	(8,091)
Cash flows used in operating activities	(2,738)	(3,158)	(24,616)	(30,512)
Cash flows from financing activities	3,519	-	18,715	22,234
Cash flows used in investing activities	(151)	(288)	(2,195)	(2,634)
Net increase / (decrease) in cash and cash equivalents	630	(3,446)	(8,096)	(10,912)
	31 December 2018			
	MYCON Marketing Management LLC	Mawarid Exchange LLC	Plus International Medical Centre LLC	Total
At 31 December 2018	AED '000	AED '000	AED '000	AED '000
NCI percentage	25%	10%	30%	
Non current assets	223	1,116	9,469	10,808
Current assets	1,260	17,180	329	18,769
Current liabilities	(1,222)	(1,781)	(10,408)	(13,411)
Net assets	261	16,515	(610)	16,166
Carrying amount of NCI	65	1,652	(183)	1,534
	For the year ended 31 December 2018			
Revenue	1,680	5,332	-	7,012
Loss	(315)	(5,542)	(9,805)	(15,662)
Total comprehensive loss	(315)	(5,542)	(9,805)	(15,662)
Loss allocated to NCI	(79)	(554)	(2,941)	(3,574)
Cash flows used in operating activities	(440)	(4,817)	(7,606)	(12,864)
Cash flows from financing activities	363	-	563	925
Cash flows used in investing activities	(31)	(345)	(2,195)	(2,572)
Net decrease in cash and cash equivalents	(108)	(5,163)	(9,239)	(14,510)

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25 Wakalah deposits

		31 December 2019	31 December 2018	01 January 2018
	<i>Note</i>	AED '000	AED '000	AED '000
Qard-e-hasan from customers	25.1	16,961	6,200	3,618
Margin deposits	25.2	419,650	536,669	574,602
		436,611	542,869	578,220

25.1 Qard-e-hasan from customers mainly represent amounts payable to customers for transaction executed on their behalf.

25.2 Margin deposits from customers mainly represent margin received from customers against guarantees issued on their behalf.

26 Other liabilities

		31 December 2019	31 December 2018	01 January 2018
		AED '000	AED '000	AED '000
Employees end of service benefits		4,220	6,864	5,195
Accounts payable		15,317	16,876	16,381
Wage pay system (WPS) settlement account		2,823	44,219	44,614
Profit payable		2,772	1,694	150
Accrued liabilities		12,397	9,896	6,485
Retention and other business line payable		16,518	14,868	37,193
Others		21,447	14,538	6,189
		75,494	108,955	116,207

27 Bank borrowings

Contractual terms of Group's profit bearing borrowings are as follows:

	31 December 2019	31 December 2018
	AED '000	AED '000
Current Liabilities:		
Corporate Ijarah I	14,938	-
Corporate Ijarah III	64,697	-
	79,635	-
Non-Current Liabilities:		
Corporate Ijarah I	50,353	-
	50,353	-
Total bank borrowings	129,988	-

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27 Bank Borrowing (Continued)

Terms of borrowings are as follows:

Facilities	Profit Rate	Year of Maturity	31 December 2019		31 December 2018	
			Limit	Exposure	Limit	Exposure
Corporate Ijarah I **	3 month EIBOR+ Margin*	2025	67,500	65,291	-	-
Corporate Ijarah II **	3 month EIBOR+ Margin*	2026	65,000	-	-	-
Corporate Ijarah III ***	1 month EIBOR+ Margin*	2020	104,000	64,697	-	-
Total			236,500	129,988	-	-

* Profit margin for Corporate Ijarah I and Corporate Ijarah II are set at 3.5% and for Corporate Ijarah III is 3.2%. Whereas minimum applicable rate for Corporate Ijarah I and Corporate Ijarah II are 6.0% and for Corporate Ijarah III is 5.5%

** Corporate Ijarah I and Corporate Ijarah II are to finance purchase of land and construction of a commercial building over it.

*** Corporate Ijarah III is a revolving facility to refinance the construction of residential property and same property has been pledged as collateral with the Bank for this facility.

Changes in the Group liabilities arising from financing activities, which are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of Cash flows as cash flows from financing activities are as follows :

	31 December 2019	31 December 2018
	AED '000	AED '000
Changes from financing cash flows related to borrowing		
Opening balance	-	-
Net proceeds from Ijarah I	64,688	-
Net proceeds from Ijarah III	64,500	-
Finance cost paid	(1,732)	-
	127,456	-
Other changes / liability related		
Finance cost	2,532	-
Closing balance	129,988	-

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28 Profit from financing and investing assets

	31 December 2019	31 December 2018
	AED '000	AED '000
Ijarah	1,767	2,639
Commodity murabaha	23,473	33,816
	25,240	36,455

29 Profit from Islamic deposits and wakalah placements

	31 December 2019	31 December 2018
	AED '000	AED '000
Profit from wakala placement	311	1,095
Profit from other Islamic deposit	954	685
	1,265	1,780

30 Unrealised loss on revaluation of investment properties / foreclosed assets

	Note	31 December 2019	31 December 2018
		AED '000	AED '000
Unrealised loss on revaluation of investment properties	14	(12,437)	(63,533)
Unrealised loss on revaluation of foreclosed assets	20	(3,576)	(6,877)
		(16,013)	(70,410)

31 Revenue and cost of sales for IT Services

Revenue and cost of sales for IT services pertain to a subsidiary of MFI which is engaged in the business of Software Development and Implementation Services.

32 Other income

	Note	31 December 2019	31 December 2018
		AED '000	AED '000
Rental income from investment properties	14.1	8,130	9,599
Loss from sale of properties		(1,469)	(2,516)
Commission income and transfer charges		5,802	5,048
Consulting and fee income		9,532	10,235
Dividend income		1,419	-
Gain on bargain purchase		-	25,407
Revenue from hospital operations		4,570	-
Other operating income		1,198	271
		29,182	48,044

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33 General and administrative expenses

	31 December 2019	31 December 2018
	<u>AED '000</u>	<u>AED '000</u>
Staff cost	49,022	47,463
Depreciation expense	8,354	5,136
Legal, consulting and professional charges	7,366	12,967
Rental expense	2,030	3,292
Telephone expense	1,298	1,729
Advertising and marketing expense	741	839
Finance and WPS related expenses	9,013	12,568
IT related expenses	7,019	7,624
Property related expenses	7,116	3,903
Provision for properties acquired as debt settlement	9,079	-
Other operating expenses	10,572	9,868
	<u>111,610</u>	<u>105,389</u>

34 Discontinued operations

In July 2018, the Group has stopped operations for brokerage business. Management committed to a plan to stop operations for this business early in 2018.

a) Results of discontinued operations

	31 December 2019	31 December 2018
	<u>AED '000</u>	<u>AED '000</u>
Revenue	16	515
Expenses	(847)	(3,655)
Loss from discontinued operations	<u>(831)</u>	<u>(3,140)</u>

b) Cash flow from discontinued operations

	31 December 2019	31 December 2018
	<u>AED '000</u>	<u>AED '000</u>
Net cash flow from / (in) operating activities	415	(6,182)
Net cash flow from investing activities	-	6,142
Net cash flow in operating activities	(12,919)	-
Net decrease in cash and cash equivalents	<u>(12,504)</u>	<u>(40)</u>

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35 Related party transactions

In the normal course of business, the Group enters into various transactions with enterprises and key management personnel which falls within the definition of related parties as defined in IAS 24 (revised). Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties.

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

	<u>31 December 2019</u>	
	<u>Directors and key management</u>	<u>Other related parties</u>
	<u>AED '000</u>	<u>AED '000</u>
<u>Asset</u>		
Financing and investing assets	9,767	83,963
<u>Liabilities</u>		
Wakalah deposits	-	41,480
Other liabilities	-	961
	<u> </u>	<u> </u>
	<u>31 December 2018</u>	
	<u>Directors and key management</u>	<u>Other related parties</u>
	<u>AED '000</u>	<u>AED '000</u>
<u>Assets</u>		
Financing and investing assets	12,600	51,050
<u>Liabilities</u>		
Wakalah deposits	-	43,587
Other liabilities	-	475
	<u> </u>	<u> </u>

None of the balances with related parties are classified under stage 3 as per IFRS 9. Hence, no specific provision has been recorded against these balances.

b) Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	<u>31 December 2019</u>	
	<u>Directors and key management</u>	<u>Other related parties</u>
	<u>AED '000</u>	<u>AED '000</u>
Income from financing and investing assets	524	6,539
Depositors' share of profits	-	(1,425)
	<u> </u>	<u> </u>

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35 Related party transactions (continued)

b) Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	31 December 2018	
	Directors and key management	Other related parties
	AED '000	AED '000
Income from financing and investing assets	691	5,652
Depositors' share of profits	-	(1,471)
Other income	7	-
	<u>698</u>	<u>4,181</u>

c) Compensation paid to key management personnel of the Group is as follows:

	31 December 2019	31 December 2018
	AED '000	AED '000
Short term benefits	2,940	2,940
Employees' end of service benefits	211	211
	<u>3,151</u>	<u>3,151</u>

36 Commitments and contingent liabilities

	31 December 2019	31 December 2018
	AED '000	AED '000

a) Commitments

Irrevocable commitments to extend credit	<u>34,568</u>	<u>12,662</u>
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Irrevocable commitments to extend credit include commitments to extend Islamic financing 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.

The Company has committed an amount of AED 35.55 million (31 December 2018: AED 32 million) to a local bank to support the financing related requirement for one of the associates.

The Group has entered into a Capital commitment where by the Group would invest an amount of AED 73 million (USD 20 million) into private equity investments. As of the reporting date, the Group has contributed an amount of AED 71 million (31 December 2018: AED 71 million) into this investment and the remaining would be invested as and when called upon by the Investment manager.

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36 Commitments and contingent liabilities (continued)

b) Contingent liabilities

The Group has issued guarantees on behalf of some customers amounting to AED 576 million (31 December 2018: AED 634 million).

The Group has given a bank guarantee, issued by a local bank, mainly in favor of the Central Bank of the UAE for an amount of AED 10 million (31 December 2018: AED 50 million).

The Group have arranged financial guarantee issued by a local Bank in favor of Dubai Financial Market and Abu Dhabi Securities Market amounting to AED 20 million (31 December 2018: AED 21 million).

37 Comparative figures

The Group has identified that two of its investments which were previously reported as associate should be presented as Investment at fair value through other comprehensive income as Group does not have significant influence. As a consequence, these have been corrected by restating each of the affected financial statement line items for prior periods with a corresponding impact in equity which is summarised below:

37.1 Below represents the impact of Restatement on the statement of consolidated financial position as of 01 January 2018

	1 January 2018 as previously reported AED '000	Restatements AED '000	1 January 2018 (Restated) AED '000
Investment securities	244,619	106,067	350,686
Equity accounted investees	430,908	(135,439)	295,469
Investment revaluation reserve	-	32,589	32,589
Accumulated losses	(127,831)	(61,961)	(189,792)

37.2 Below represents the impact of Restatement on the consolidated statement of financial position as of 31 December 2018

	31 December 2018 as previously reported AED '000	Restatements AED '000	31 December 2018 (Restated) AED '000
Investment securities	235,887	67,538	303,425
Equity accounted investees	384,187	(91,969)	292,218
Investment revaluation reserve	(15,000)	(5,940)	(20,940)
Accumulated losses	(274,254)	(18,491)	(292,745)

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37 Comparative figures (continued)

37.3 Below represents the impact of Restatement on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	31 December 2018 as previously reported AED '000	Restatements AED '000	31 December 2018 (Restated) AED '000
Share of loss from equity accounted investees	(46,721)	43,470	(3,251)
Fair value movement in investment in financial assets at fair value through other comprehensive income	(15,000)	(38,529)	(53,529)

38 Subsequent Events

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, Group does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group's financial statements. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's financial statements in 2020.

39 Zakat

Zakat as approved by the Company's Fatwa and Sharia Supervisory Board (FSSB) amounted to Nil (2018: AED Nil) per share. Shareholders are required to pay Zakat on their own account.

40 Approval of consolidated financial statements

The consolidated financial statements have approved by the Board of directors and authorised for issue on 05 May 2020.