Deem Finance LLC

(formerly Dunia Finance LLC)

DIRECTORS' REPORT AND
FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

Deem Finance LLC

(formerly Dunia Finance LLC)

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2019

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DIRECTORS' REPORT

Dear Shareholders

The Directors present their report to the shareholders together with the audited Financial statements of Deem Finance LLC (the "Company") (formerly Dunia Finance LLC) for the year ended 31 December 2019 and the financial position of the Company as at 31 December 2019.

Background

The Company, also known as "Deem", was formally established on 7th July 2008 as a limited liability Company registered in UAE, having its registered office in Abu Dhabi. Deem is a Finance company regulated by the Central Bank of the U.A.E. and a provider of financial solutions including personal loans, credit cards, guarantees and deposits to its customers in the U.A.E. The Company predominantly serves the salaried mass market and mass affluent segments in the UAE and has grown the loan book from 2009 to 2017. The performance of the Company has come under pressure with increasing loan losses since 2016 due to the prevailing macro environment. Hence, the Company has prudently reduced its loan book in 2018 and 2019.

Directors

The directors of the Company in office at the date of this report are as follows:

1. Mr. Saed Arar, Chairman
2. Mr. Amr Al Menhali, Director
3. Mr. Yeo Hong Ping, Director
4. Mr. Anindo Mukherjee, Director
5. Dr. Ahmed Khalil Al Mutawa, Independent Director
6. Mr. Shahli Akram Juma Abdulrahim Hjazi, Independent Director

Share capital

The authorized, issued and paid up share capital of the Company is 8,895,830 shares (2018: 5,500,000 shares) of AED 100 each (2018: AED 100 each), amounting to AED 889,583,000 (2018: AED 550,000,000).

Capital Injection in FY 2019

In February 2019, the company launched a rights issue of shares of AED 350,000,000 in order to address capital erosion caused by the high loan losses over 2017 and 2018. This issuance has been subscribed to the extent of AED 339,583,000 in April 2019.

Financial Performance

The Company's financial performance on key financial metrics are provided below:

- Net Interest Income of AED 210.9 million
- The net customer receivables were at AED 956 million as of 31 December 2019 (31 December 2018: AED 1,211 million)
- Customer Deposits were marginally lower at AED 953 million as at 31st December 2019, compared to AED 1,128 million as at 31st December 2018. Customer deposits comprise a mix of deposits pledged for the issue of guarantees, interbank sources, regular time deposits and deposits without pre-termination ability.
- Liquidity position comprised bank borrowings of AED 92 million (2018: AED 321 million) and bank placements & cash equivalents of AED 355 million (2018: AED 339 million).

Auditor

The financial statements have been audited by Ernst & Young.

Acknowledgement

The Directors wish to specially recognize the co-operation extended by every employee of the Company and thank them for their ongoing contribution. The Directors are also thankful for the wholehearted support received from its customers, the Central Bank of the UAE, various Ministries of the UAE Government, the Company's bankers and Deem's shareholders.

On behalf of the Board,

Saed Arar
Chairman of the Board of Directors

Deem Finance LLC

(formerly Dunia Finance LLC)

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

Deem Finance LLC (formerly Dunia Finance LLC)

Financial statements
For the year ended 31 December 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

DEEM FINANCE LLC (formerly Dunia Finance LLC)

Report on the Audit of the Financial statements

Opinion
We have audited the accompanying financial statements of Deem Finance LLC (the "Company") which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Codes of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern
We draw attention to note 2.1 to the accompanying financial statements which indicate that the Company has incurred a net loss of AED 125,578 thousand during the year ended 31 December 2019, and as of that date its accumulated losses amounted to AED 827,851 thousand which exceeds 50% of its share capital. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. However, the financial statements have been prepared on a going concern basis as the Directors believe the Company will generate sufficient cash flows from its operations which will enable the Company to meet its financial commitments and liabilities for the foreseeable future. Our report is not qualified in respect of this matter.

Other matters
The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 25 February 2019.

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

DEEM FINANCE LLC (formerly Dunia Finance LLC) continued

Report on the Audit of the Financial statements continued

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

DEEM FINANCE LLC (formerly Dunia Finance LLC) continued

Report on Other Legal and Regulatory Requirements

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

i) the Company has maintained proper books of account;

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

iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Company's Memorandum of Association and the UAE Federal Law No. (2) of 2015;

iv) the financial information included in the Director's report is consistent with the books of account and records of the Company;

v) based on the information that has been made available to us, the Company has neither purchased nor invested in any shares or stocks during the financial year ended 31 December 2019;

vi) note 11 reflects the disclosures relating to related parties and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened, during the financial year ended 31 December 2019, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum of Association which would materially affect its activities or its financial position as at 31 December 2019; and

viii) note 21 reflects the social contributions made by the Company during the year ended 31 December 2019.

Signed by:
Raed Ahmad
Partner
Ernst & Young
Registration No 811

4 March 2020
Abu Dhabi

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Deem Finance LLC (formerly Dunia Finance LLC)

STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Notes	*2019* *AED'000*	*2018* *AED'000*
ASSETS			
Cash and bank balances	5	**354,823**	339,084
Loans and advances, net	6	**955,640**	1,211,117
Property and equipment	7	**8,621**	9,885
Intangible assets	8	**15,565**	8,676
Right of use asset	2.2	**5,241**	-
Other assets	9	**11,902**	11,690
Due from related parties	11	**7,305**	-
TOTAL ASSETS		**1,359,097**	1,580,452
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	10	**952,669**	1,127,898
Due to related parties	11	**-**	507
Borrowings	12	**91,667**	320,833
Provision for employees' end of service benefits	13	**3,438**	2,506
Lease liabilities	2.2	**4,848**	-
Other liabilities	14	**43,178**	79,207
Total liabilities		**1,095,800**	1,530,951
Equity			
Share capital	15	**889,583**	550,000
Share premium		**35,544**	35,544
Statutory reserve	17	**69,004**	69,004
Specific reserve	18	**97,017**	30,548
Accumulated losses		**(827,851)**	(635,595)
Total equity		**263,297**	49,501
TOTAL LIABILITIES AND EQUITY		**1,359,097**	1,580,452

These financial statements were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:

Saed Arar	Chris de Bruin	Jayasheel Bhansali
Chairman	Chief Executive Officer	Chief Financial Officer

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	***2019 AED'000***	*2018 AED'000*
Interest income	19	**271,897**	494,564
Interest expense	19	**(60,983)**	(71,447)
Net interest income		**210,914**	423,117
Fees and commission income, net		**98,535**	179,949
Operating income		**309,449**	603,066
Impairment charges, net	20	**(253,643)**	(660,073)
General and administrative expenses	21	**(173,803)**	(208,151)
Amortisation and depreciation	2.2,7,8	**(7,581)**	(7,022)
NET LOSS FOR THE YEAR		**(125,578)**	(272,180)
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(125,578)**	(272,180)

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital AED'000	*Share premium AED'000*	*Statutory reserve AED'000*	*Specific reserve AED'000*	*Accumulated losses AED'000*	*Total AED'000*
At 1 January 2018	550,000	35,544	69,004	-	(10,283)	644,265
Changes on initial application of IFRS 9	-	-	-	-	(322,584)	(322,584)
At 1 January 2018	550,000	35,544	69,004	-	(332,867)	321,681
Total comprehensive loss for the year	-	-	-	-	(272,180)	(272,180)
Transfer to specific reserve (note 18)	-	-	-	30,548	(30,548)	-
At 31 December 2018	550,000	35,544	69,004	30,548	(635,595)	49,501
At 1 January 2019	550,000	35,544	69,004	30,548	(635,595)	49,501
Capital introduced during the year (note 15)	339,583	-	-	-	-	339,583
Expenses associated with capital raise	-	-	-	-	(209)	(209)
Total comprehensive loss for the year	-	-	-	-	(125,578)	(125,578)
Transfer to specific reserve (note 18)	-	-	-	66,469	(66,469)	-
At 31 December 2019	**889,583**	**35,544**	**69,004**	**97,017**	**(827,851)**	**263,297**

The attached notes 1 to 23 form part of these financial statements.

Deem Finance LLC (formerly Dunia Finance LLC)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	*2019* *AED'000*	*2018* *AED'000*
OPERATING ACTIVITIES			
Net loss for the year		**(125,578)**	(272,180)
Adjustments for:			
Depreciation of property and equipment and right of use asset	2.2,7	**4,467**	4,235
Amortisation of intangible assets	8	**3,114**	2,787
Loss on write off of property and equipment and intangible assets		**632**	-
Loss on disposal of property and equipment and intangible assets		**-**	(24)
Impairment charges, net	20	**253,643**	715,926
Finance costs		**11,383**	13,527
Provision for employees' end of service benefits	13	**917**	1,826
		148,578	466,097
Working capital changes:			
Loans and advances, net		**25**	(220,937)
Other assets		**(313)**	10,118
Customer deposits		**(175,229)**	(152,347)
Due from related parties		**(6,458)**	-
Due to related parties		**(507)**	12,648
Other liabilities		**(37,290)**	(10,288)
Cash (used in) generated from operations		**(71,194)**	105,291
Finance costs paid		**(11,419)**	(13,564)
Employees' end of service benefits paid	13	**(832)**	(6,266)
Net cash flows (used in) from operating activities		**(83,445)**	85,461
INVESTING ACTIVITIES			
Increase in bank deposits, long term		**(30,644)**	65,130
Purchase of property and equipment		**(2,561)**	(2,613)
Proceeds from disposal of intangible assets, property and equipment		**-**	317
Purchase of intangible assets	8	**(10,469)**	(7,159)
Net cash flows (used in) from investing activities		**(43,674)**	55,675
FINANCING ACTIVITIES			
Capital introduced	15	**339,583**	-
Expenses related to capital raised		**(209)**	-
Principal paid on lease liabilities	2.2	**(1,191)**	-
Borrowings repaid	12	**(229,166)**	150,833
Net cash flows from financing activities		**109,017**	150,833
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(18,102)**	291,969
Cash and cash equivalents, beginning of the year		**342,509**	50,540
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	**324,407**	342,509

The attached notes 1 to 23 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITY

Deem Finance LLC ("the Company") (Formerly Dunia Finance LLC) was formally established as a limited liability Company on 7 July 2008 under the UAE Companies Law. The Company was licensed by the Central Bank of the UAE on 11 September 2008 to operate as a finance Company. During the year, the Company changed its name from Dunia Finance LLC to Deem Finance LLC.

UAE Federal Law No. 2 of 2015 (Companies Law) which is applicable to the Company has come into effect from 1 July 2015. The Company is in full compliance with the Companies Law.

The Company's principal activity is providing customer centric financial solutions to its target customer segments. The Company has not purchased or invested in any shares during the year ended 31 December 2019.

The Company's registered address is Units No. 303 & 304, Al Reem Plaza Building, Zayed 1st Road, PO Box 44005, Abu Dhabi, United Arab Emirates.

In February 2019, the company launched a rights issue of shares of AED 350,000,000. This issuance has been subscribed to the extent of AED 339,583,000 in April 2019.

The shareholders of the Company and their respective shareholding are as follows:

	31 December 2019	*31 December 2018*
Bugis Investments Mauritius Pte Ltd (a wholly owned subsidiary of Fullerton Financial Holdings Pte Ltd)	**40%**	40%
Alpha Investment Company LLC (a subsidiary of Mubadala Development Company PJSC)	**33%**	31%
Waha Capital PJSC	**26%**	25%
A A Al Moosa Enterprises LLC	**1%**	4%

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The financial statements are prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Company's financial statements therefore fairly present the financial position and results. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Company's functional and presentation currency. Amounts have been rounded to nearest thousand except where otherwise indicated.

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

During the year ended 31 December 2019, the Company has incurred a loss of AED 125,578 thousand (2018: AED 272,180 thousand) and as of that date, its accumulated losses amounting to AED 827,851 thousand (2018: AED 635,595 thousand) exceeded 50% of its share capital. This indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the ordinary course of business. However, the financial statements have been prepared on a going concern basis as the Management believe the Company will generate sufficient funds from its operations which will enable the Company to meet its financial commitments and liabilities for the foreseeable future. The Shareholders of the Company have met and resolved not to dissolve the Company in accordance with the Federal Law No. 2/2015.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year, the Company has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2019:

- IFRS 16 *Leases*
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23
- Amendment to IFRS 9 *Financial Instruments* regarding prepayment features with negative compensation
- IFRIC 23 *Uncertainty over income tax treatments*
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* regarding application of IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture
- Amendments to IAS 19 *Employee Benefits* Plan Amendment, Curtailment or Settlement

The adoption of these standards have no material impact on the financial statements of the Company, except for the adoption IFRS 16 *Leases*, for which the nature and effect of the changes are disclosed below.

IFRS 16 Leases
The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Company elected to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company has various lease contracts, where prior to the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. The leased asset was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under 'other assets' and 'other liabilities' respectively. Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

2.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 16 Leases continued

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short- term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	AED ’000
Assets	
Right-of-use assets	**186**
Prepayments	**(51)**
	135
Liabilities	
Lease liabilities	**135**
Total adjustment to equity:	
Retained earnings	-
	-

2.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 16 Leases continued
Operating lease commitments can be reconciled to lease liabilities as at 1 January 2019 as follows:

	AED '000
Operating lease commitments as at 31 December 2018	**10,377**
Incremental borrowing rate as at 1 January 2019	**5.5%**
Discounted operating lease commitments as at 1 January 2019	**10,374**
Adjustment of commitments relating to leases of low value assets	**(10,239)**
Lease liabilities as at 1 January 2019	**135**

The movement in the Company's right-of-use assets and lease liabilities during the year is as follows:

	Right-of-use assets AED '000	*Lease liability AED '000*
As at 1 January 2019	**186**	**135**
Additions during the year	**5,863**	**5,863**
Depreciation charge for the year	**(808)**	**-**
Finance charge	**-**	**41**
Principal paid on lease liabilities	**-**	**(1,191)**
	5,241	**4,848**

2.3 SIGNIFICANT ACCOUNTING POLICIES

Property and equipment
Property and equipment are stated at historical cost less accumulated depreciation and impairment. The cost of property and equipment includes expenditure directly attributable to the acquisition or construction of the asset as well as expenditure incurred on bringing the asset to the working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which these are incurred.

Depreciation is recognised in the statement of comprehensive income on a straight-line basis, at rates calculated to reduce the cost of assets to their estimated residual value over their expected useful lives, as follows:

	Years
Office equipment	3-8
Leasehold improvements	3-8
Motor vehicles	3-5

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date. Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income / (loss).

Property and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and for construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with the Company's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment or intangible asset category and is depreciated or amortised in accordance with the Company's policies.

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets
Software acquired by the Company is stated at cost less accumulated amortisation and impairment. Subsequent expenditure on software assets is capitalised only when such expenditure increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

Amortisation is recognised in the statement of comprehensive income on a straight-line basis, at rates calculated to reduce the cost of assets to their estimated residual value over their expected useful lives of 3 to 7 years.

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

Classification of financial assets and liabilities
All financial assets under the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Company's business model for managing the financial assets and contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost, if both the following conditions are met:

- the financial 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 interest on the principal amount outstanding.

Classification of financial assets and liabilities continued
A financial asset is measured at fair value through other comprehensive income, if both of the following conditions are met:

- the financial 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 interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Company may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

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

- 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 revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest:
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition and its related interest which is recognised using the effective interest rate method.

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

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rate.

The Company has classified cash and bank balances and loans and advances, net and certain other assets as financial assets at amortised cost.

Financial liabilities
All financial liabilities are classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts; and
- commitments to provide a loan at a below-market interest rate.

At initial recognition, the Company may irrevocably designate a financial liability as measured at fair value through profit or loss when permitted, or when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the entity's key management personnel.

Reclassification of financial assets and financial liabilities
Where the Company changes its business model for managing financial assets, it reclassifies all affected financial assets. An entity shall not reclassify any financial liability.

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Measurement of financial assets and liabilities
Initial measurement
At initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets
After initial recognition, an entity shall measure a financial asset in accordance with its classification at:

- amortised cost less impairment;
- fair value through other comprehensive income less impairment; or
- fair value through profit or loss.

Impairment is assessed on the financial assets measured at amortised cost and at fair value through other comprehensive income as disclosed below.

Derecognition of financial assets and liabilities
A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

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

Impairment assessment:
The Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

Measurement of expected credit losses (ECL):
The impairment of financial assets is calculated in accordance with an IFRS 9 compliant expected credit loss ("ECL") model. IFRS 9 introduces a single model for the measurement of impairment losses on all financial assets including loans and advances measured at amortized cost or financial assets carried at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Company measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Company has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Company developed a statistical model and for other portfolios judgmental models were developed.

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 financee, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing 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 included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Write-off policy
The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. A state of no reasonable expectation of recovery is deemed to have been reached, when assets have been fully provided and remain as such for a period of more than 53 months as established by historical data. Indicators that there is no reasonable expectation of recovery include historical data showing that the marginal rate of recovery is less than 0.1% for every incremental month of recovery effort.

The Company may write-off financial assets that are still subject to enforcement activity. 100% of the outstanding contractual amounts of assets written off during the year ended 31 December 2019, amounting to AED 203,190 thousand (2018: AED 322,644 thousand), are subject to enforcement activity. The Company still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Cash and cash equivalents
Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand and deposits held with original maturities of three months or less. Cash and cash equivalents are reported in the statement of financial position net of an expected credit loss provision.

Customer deposits
Customer deposits are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest rate method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

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

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Employees' end of service benefits
Pension contributions are made with respect to UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

Provision is made for the end of service benefits due to expatriate employees in accordance with UAE Labour Law and the requirements of IAS 19 for their periods of service up to the date of these financial statements. The provision for the end of service benefits is calculated annually by independent actuaries using the projected unit credit method. The provision is re-assessed by the management as at the statement of financial position date on the basis of assumptions used in the actuarial valuation performed.

Other employee benefits
All other employee benefits are accrued for as and when services are rendered by the employees.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise.

Impairment of non-financial assets
The Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

Revenue recognition
The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through its expected life (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability respectively.

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued
While calculating effective interest rate, cash flows are estimated considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers.

Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(b) Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate to arrive at the amortised cost of financial asset and financial liability.

Other fees and commission income are generally recognised as and when the service has been provided.

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

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

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

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

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

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Financial guarantee contracts and loan commitments
Financial guarantee contracts are contracts that require the issuer 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. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently they are measured at the higher of this amortised amount and the amount of loss allowance.

For financial guarantee contracts, the expected credit losses are recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Company cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Value Added Tax (VAT)
Expenses and assets are recognised net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; or
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the company's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements .

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS continued

Business model assessment
The business model reflects how the Company manages financial assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the financial assets or is to collect both the contractual cash flows and cash flows arising from the sale of financial assets. Factors considered by the Company in determining the business model for a group of financial assets include past experience on how the cash flows for these financial assets were collected, how the financial asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. The Company's business model for the loan book is to hold to collect contractual cash flows.

Significant increase of credit risk
ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative forward looking information.

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. The Company monitors the appropriateness of the credit risk characteristics on a timely 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 ECL, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differ.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL are provided in Note 4.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Key sources of estimation uncertainty
The following are key estimations that the management has used in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

a) Forward-looking scenarios

When measuring ECL the Company uses forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

b) Probability of default (PD)

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 economic conditions.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS continued

Measurement of the expected credit loss allowance continued

c) Loss Given Default (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 collateral and integral credit enhancements.

Impairment of property and equipment and intangible assets
The Company determines at each reporting date whether there is any objective evidence that the property and equipment and intangible assets are impaired. The carrying values of property and equipment and intangible asstes are reviewed for impairment when events or changes in the circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and value in use.

Discount rate used to determine the carrying amount of the Company's defined benefit obligation
The determination of the Company's defined benefit obligation depends on certain assumptions, which include selection of the discount rate, expected rate of salary increase and turnover rate. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Company's financial statements in subsequent years.

Discount rate used for initial measurement of lease liabilities
The Company, as a lessee, measures the lease liabilities at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company on initial recognition of the lease uses its incremental borrowing rate. Incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in similar economic environment. The Company determined its incremental borrowing rate at 5.5% in respect of the lease liabilities (note 2.2).

4 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business and these risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies approved by the Board of Directors are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems. The Chief Risk Officer oversees risk management based on policies approved by the Board of Directors. In addition, Internal Audit is responsible for the independent review of risk management and the control environment. The main types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

The Board has also established a Board Audit Committee, which is responsible for the independent monitoring of compliance with the Company's risk management policies and procedures. The Board's Audit Committee is supported in the execution of these responsibilities by the Internal Audit Department.

4 FINANCIAL RISK MANAGEMENT continued

Credit risk
The Company takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is an important risk for the Company's business and management, therefore, the Company carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities and the placement of deposits and balances with banks. There is also credit risk in off balance sheet financial commitments such as unused credit card limits and guarantees provided.

The credit risk management and control function is overseen by the Chief Risk Officer. The Operational Risk Committee periodically reviews and monitors all applicable risks excluding credit risk which is monitored by the Credit Committee.

Application and behaviour scorecards, as conceptualized by Credit Policy and Analytics, are applied for assessment of all applications for credit facilities. Approval of credit facilities is based on an assessment of the ability to service the facility, credit history, an internal scoring of the applicant and eligible maximum unsecured exposure. The final credit decision is based on overall customer profile, ability & intent indicators, score, along with all external and internal verification checks. The Fraud Risk team performs checks on all approved cases based on criteria set by the Fraud Risk policy, and any other indicators from the applications, accompanying documents etc.

Exposure to credit risk is also managed through regular analysis of the ability of counterparties to meet interest and repayment obligations and by changing customer credit limits where appropriate.

The Company manages limits and controls concentration of credit risk to individuals, employees of different industry sectors and tenors. Such risks are monitored regularly and subject to an annual formal review. Limits to banks are approved by the Board of Directors and exposures within the limits are tracked daily.

The Company extensively uses analytics to monitor changes in the credit profiles of its segmented portfolio. Analytical tools are used to weigh the risk reward equation to aid decision making in terms of lending to selected customer segments. Further monitoring of delinquencies across the customer loan portfolio is aimed at identifying trends and ensuring that the credit risk related to the portfolio is pro-actively managed. The Company has pre-defined delinquency ratio ranges which will warrant appropriate remedial action if the ranges are breached. Credit risk to professional counterparties is managed by due diligence and evaluation of the professional counterparty's credit risk which may include reference to external credit ratings.

Management of credit risk
Collateral is used as a mitigating tool by the Company. The principal acceptable collateral is cash deposits for loans and advances to customers and guarantees issued on behalf of customers.

The maximum loan to value of loans and advances and guarantees, as well as valuation frequencies are clearly documented in the credit policy.

Incorporation of forward-looking information
The Company uses forward-looking information that is available in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Company uses external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Company applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Company for strategic planning and budgeting. The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Company has not made changes in the estimation techniques or significant assumptions made during the reporting period.

4 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Measurement of ECL
The key inputs used for measuring ECL are:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

The estimation methodology for the three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):
12 month PD is estimated based on the historical performance of accounts and overlaid with macroeconomic impact to compute monthly marginal PD. 12 month monthly PD is used for stage 1 and life time PD is used for stage 2.

Loss Given Default (LGD):
A recovery analysis based on historical data has been carried out for the estimation of LGD to compute the 'Net Present Value' (NPV) of the loss as a percentage of the EAD.

Exposure at Default (EAD):
A reducing EAD factor model is used by the Company. Based on the historical data of defaulted customers, an estimate of average month-on-month repayment of the outstanding balance by the customers prior to default is determined.

These figures are generally derived from internally developed models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

The Company measures ECL considering the risk of default over the maximum contractual period over which the company is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Company's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Company's exposure to credit losses to the contractual notice period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Company 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 cancelled only when the Company becomes aware of an increase in credit risk at customer level.

12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

- **Stage1:** where 0-1 payment is overdue on the credit facilities and no significant increase in credit risk is observed,12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where 2-3 payments are overdue on the credit facilities and significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- **Stage3:** where 4 or more payments are overdue on the credit facilities, they are considered to be in default, Life-time ECL is recorded as impairment provision.

Significant increase in credit risk (SICR)
The Company monitors all financial assets that are subject to 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 Company will measure the loss allowance based on lifetime rather than 12-month ECL. The Company performs both qualitative and quantitative analyses for determination of SICR.

4 FINANCIAL RISK MANAGEMENT continued

Credit risk continued

Definition of default and credit-impaired assets

A credit facility is considered to be in default when there are four payments overdue. The customers are classified or downgraded in the above categories, based on a comprehensive assessment of the customer's credit quality. This assessment includes review of payment history, capacity to repay and financial health.

Curing:

Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have shown consistent performance over a probation period of 12 months. Moreover, none of the assets can move back directly to Stage 1 from Stage 3 and will be moved initially to stage 2 for a probation period of 12 months before being upgraded to Stage 1.

Groupings based on shared risks characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- Product type;
- Delinquency status;
- Utilisation band;

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The segmentation of loans and advances is used as a basis to assess the quality of the loans and effectively manage the credit risk. The total outstanding contractual amount of commitments towards unused credit card limits does not necessarily represent future cash requirements, since these unused credit card limits may not be fully utilised and are revocable by the Company.

Financial guarantees represent guarantees issued by the Company on behalf of customers favouring the UAE Ministry of Labour and other government bodies and are substantially secured by cash collateral (Note 23).

Credit risk exposure per class of financial asset

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the company's maximum exposure to credit risk on these assets.

4 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Credit risk exposure per class of financial asset continued
Credit risk exposures relating to on-balance sheet assets are as follows:

	Stage 1 (12-month ECL) AED'000	*Stage 2 (lifetime ECL) AED'000*	*Stage 3 (lifetime ECL) AED'000*	*Total AED*
At 31 December 2019				
On balance sheet assets:				
Loans and advances	**836,590**	**132,434**	**2,770,912**	**3,739,936**
Bank balances	**355,051**	**-**	**-**	**355,051**
Due from related parties	**7,305**	**-**	**-**	**7,305**
Other assets	**4,009**	**-**	**-**	**4,009**
Total	**1,202,955**	**132,434**	**2,770,912**	**4,106,301**
At 31 December 2018				
On balance sheet assets:				
Loans and advances	1,187,778	167,580	2,588,151	3,943,509
Bank balances	342,291	-	-	342,291
Other assets	5,384	-	-	5,384
Total	1,535,453	167,580	2,588,151	4,291,184

The below table summarises the expected credit loss allowance at the end of reporting period by class of financial asset:

	2019 AED '000	*2018 AED '000*
Bank balances (note 5)	**228**	3,425
Loans and advances, net (note 6)	**2,784,296**	2,732,392
Other assets (note 9)	**125**	75
	2,784,649	2,735,892

The gross amount of loans and advances, net of expected credit losses, which are current and past due and the corresponding impairment allowances are as follows:

	2019 AED'000	*2018 AED'000*
Stage 1	**836,590**	1,187,778
Stage 2	**132,434**	167,580
Stage 3	**2,770,912**	2,588,151
Total	**3,739,936**	3,943,509
Expected credit losses	**(2,784,296)**	(2,732,392)
Net loan and advances	**955,640**	1,211,117

4 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Recoveries on these loans are recognised when realised and reduced from the impairment charge.

The Company operates in the UAE and all the loans and advances are provided to UAE retail customers.

Movement in provision for expected credit losses (ECL) on loans and advances

	31 December 2019			
	Stage 1 (12-month ECL) AED'000	***Stage 2 (lifetime ECL) AED'000***	***Stage 3 (lifetime ECL) AED'000***	***Total AED***
At 1 January 2019	**152,184**	**147,231**	**2,432,977**	**2,732,392**
Impairment charge for the year (note 6, 20)	**(58,433)**	**(74,466)**	**435,675**	**302,776**
Less: Write offs during the year (note 6)	**-**	**-**	**(203,190)**	**(203,190)**
Less: Recoveries during the year (note 6, 20)	**-**	**-**	**(47,682)**	**(47,682)**
At 31 December 2019	**93,751**	**72,765**	**2,617,780**	**2,784,296**

	31 December 2018			
	Stage 1 (12-month ECL) AED'000	*Stage 2 (lifetime ECL) AED'000*	*Stage 3 (lifetime ECL) AED'000*	*Total AED*
At 1 January 2018	210,261	200,800	1,648,807	2,059,868
Effect of adoption of IFRS-9	-	-	320,562	320,562
At 1 January 2018 (adjusted)	210,261	200,800	1,969,369	2,380,430
Impairment charge for the year (Note 6)	(58,077)	(53,569)	824,869	713,223
Less: Write off during the year (Note 6)	-	-	(322,644)	(322,644)
Less: Recoveries during the year (Note 6)	-	-	(38,617)	(38,617)
At 31 December 2018	152,184	147,231	2,432,977	2,732,392

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

4 FINANCIAL RISK MANAGEMENT continued

Impairment reserve under the Central Bank of UAE (CBUAE) guidance continued
Pursuant to clause 6.4 of the guidance a comparison between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2019	*2018*
	AED'000	*AED'000*
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**15**	20
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(166,516)**	(299,415)
General provision transferred to the impairment reserve	**-**	-
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**2,714,797**	2,463,525
Less: Stage 3 provisions under IFRS 9	**(2,617,780)**	(2,432,977)
Specific provision transferred to the impairment reserve	**97,017**	30,548
Total provision transferred to the impairment reserve	**97,017**	30,548

As per the guidance note, where provisions under circular 28/10 of the CBUAE exceed provisions under IFRS 9, the difference is transferred to an impairment reserve within equity as an appropriation from retained earnings. This reserve is not available for dividend distribution.

Liquidity risk
Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

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

The Company's liquidity management process includes:

- Managing day-to-day funding, through anticipating and monitoring future cash flow requirements.
- The primary tool employed by the Company is the maturity mismatch analysis, which includes behavioural assumptions on debts and loans repayments based on historical analysis.
- Monitoring balance sheet liquidity ratios, market movements and interest rate forecasts.
- Setting and monitoring limits for the above mentioned process.

Sources of liquidity are regularly reviewed and the Company seeks to diversify funding sources and increase its investor base to ensure continuous availability of funds. All liquidity policies and procedures are subject to review and approval by the Asset and Liability Committee ("ALCO").

4 FINANCIAL RISK MANAGEMENT continued

Liquidity risk continued

Non derivative financial liabilities and liquidity risk

The table below summarises the maturity profile of the discounted cash flows of the Company's financial assets and liabilities as at 31 December 2019.

On-balance sheet

	Less than 1 year AED'000	*1-5 years AED'000*	*Over 5 years AED'000*	*Un-specified AED'000*	*Total AED'000*
At 31 December 2019					
Financial assets					
Cash and bank balances	**354,823**	**-**	**-**	**-**	**354,823**
Loans and advances, net	**657,251**	**298,389**	**-**	**-**	**955,640**
Other assets	**4,009**	**-**	**-**	**-**	**4,009**
Due from related parties	**7,305**	**-**	**-**	**-**	**7,305**
Total financial assets	**1,023,388**	**298,389**	**-**	**-**	**1,321,777**
Other assets	**7,893**	**-**	**-**	**29,427**	**37,320**
Total assets	**1,031,281**	**298,389**	**-**	**29,427**	**1,359,097**
At 31 December 2019					
Financial liabilities					
Customers' deposits	**518,526**	**385,552**	**48,591**	**-**	**952,669**
Borrowings	**91,667**	**-**	**-**	**-**	**91,667**
Lease liabilities	**2,126**	**2,722**	**-**	**-**	**4,848**
Other liabilities	**39,114**	**-**	**-**	**-**	**39,114**
Total financial liabilities	**651,433**	**388,274**	**48,591**	**-**	**1,088,298**
Other liabilities	**914**	**3,150**	**-**	**3,438**	**7,502**
Total liabilities	**652,347**	**391,424**	**48,591**	**3,438**	**1,095,800**

The table below summarises the maturity profile of the discounted cash flows of the Company's financial assets and liabilities as at 31 December 2018.

On-balance sheet

	Less than 1 year AED'000	*1-5 years AED'000*	*Over 5 years AED'000*	*Un-specified AED'000*	*Total AED'000*
At 31 December 2018					
Financial assets					
Cash and bank balances	253,954	85,130	-	-	339,084
Loans and advances, net	652,666	558,451	-	-	1,211,117
Other assets	5,384	-	-	-	5,384
Total financial assets	912,004	643,581	-	-	1,555,585
Other assets	6,306	-	-	18,561	24,867
Total assets	918,310	643,581	-	18,561	1,580,452
At 31 December 2018					
Financial liabilities					
Customers' deposits	542,009	508,583	77,306	-	1,127,898
Due to related parties	507	-	-	-	507
Borrowings	175,000	145,833	-	-	320,833
Other liabilities	72,261	-	-	-	72,261
Total financial liabilities	789,777	654,416	77,306	-	1,521,499
Other liabilities	2,163	4,783	-	2,506	9,452
Total liabilities	791,940	659,199	77,306	2,506	1,530,951

4 FINANCIAL RISK MANAGEMENT continued

The table below presents the maturity profile of the cash flows payable by the Company in respect of its non-derivative financial liabilities, by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows.

On-balance sheet

	Less than 1 year AED'000	*1-5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
At 31 December 2019				
Customers' deposits	**528,662**	**432,365**	**69,768**	**1,030,795**
Borrowings	**94,020**	**-**	**-**	**94,020**
Lease liabilities	**2,227**	**3,004**	**-**	**5,231**
Other liabilities	**39,114**	**-**	**-**	**39,114**
Total	**664,023**	**435,369**	**69,768**	**1,169,160**
At 31 December 2018				
Customers' deposits	552,782	573,054	116,059	1,241,895
Due to related parties	507	-	-	507
Borrowings	188,044	149,733	-	337,777
Other liabilities	72,860	-	-	72,860
Total	814,193	722,787	116,059	1,653,039

Off-balance sheet

	Less than 1 year AED'000	*1-5 years AED'000*	*More than 5 years AED'000*	*Total AED'000*
At 31 December 2019				
Unused credit card limits	**14,621**	**-**	**-**	**14,621**
Financial guarantees	**-**	**-**	**264,790**	**264,790**
Capital commitments	**1,781**	**-**	**-**	**1,781**
Total	**16,402**	**-**	**264,790**	**281,192**
At 31 December 2018				
Unused credit card limits	17,729	-	-	17,729
Financial guarantees	-	-	334,762	334,762
Operating lease commitments	2,486	7,891	-	10,377
Capital commitments	8,270	-	-	8,270
	28,485	7,891	334,762	371,138

Unused credit card limits

The contractual amount of the Company's commitment towards unused credit card limits is summarised in the above table. However, the commitments to extend credit are revocable at the option of the Company.

Financial guarantees

Financial guarantees represent guarantees issued by the Company on behalf of customers favouring the UAE Ministry of Labour and other government bodies and are substantially secured by cash collateral.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases for properties.

Capital commitments

Capital commitments are in respect of equipment and software purchases.

4 FINANCIAL RISK MANAGEMENT continued

Market risk
The Company takes on exposure to market risk, which is the risk that fair value or future cash flows will fluctuate as a result of changes in market prices. Market risk arises from exposure to currency and interest rate fluctuations. The ALCO meets regularly to review and provide direction related to interest rate risk and currency risk in the Company. It ensures that the exposures of the Company are within prudent levels.

The main measurement techniques used to measure and control market risks are outlined below:

Interest rate risk
Interest rate risk arises from mismatches in the interest rate profile of the Company's assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. The Company strives to maintain an interest rate profile that will lead to financial performance consistent with its long term objectives.

The ALCO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which are monitored by the market risk manager. Regular stress testing is performed using hypothetical scenarios to monitor the Company's vulnerability to simultaneous shocks on market risks. It gives an indication of the potential loss that arises in extreme conditions, facilitating the proactive management of market risks in an environment of rapid market changes.

4 FINANCIAL RISK MANAGEMENT continued

Market risk continued
Interest rate risk continued
The table below summarises the Company's exposure to interest rate risk. It includes the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non-interest bearing AED'000*	*Total AED'000*	*Effective interest rate*
At 31 December 2019							
Assets							
Cash and bank balances	**338,846**	**136**	**-**	**-**	**15,841**	**354,823**	**2.59%**
Loans and advances, net	**514,462**	**142,789**	**298,389**	**-**	**-**	**955,640**	**21.81%**
Due from related parties	**-**	**-**	**-**	**-**	**7,305**	**7,305**	
Property and equipment	**-**	**-**	**-**	**-**	**8,621**	**8,621**	
Intangible assets	**-**	**-**	**-**	**-**	**15,565**	**15,565**	
Right of use asset	**-**	**-**	**-**	**-**	**5,241**	**5,241**	
Other assets	**-**	**-**	**-**	**-**	**11,902**	**11,902**	
Total assets	**853,308**	**142,925**	**298,389**	**-**	**64,475**	**1,359,097**	
Liabilities and equity							
Customers' deposits	**232,656**	**285,871**	**385,552**	**48,590**	**-**	**952,669**	**4.85%**
Borrowings	**27,500**	**64,167**	**-**	**-**	**-**	**91,667**	**5.45%**
Provision for employees' end of service benefits	**-**	**-**	**-**	**-**	**3,438**	**3,438**	
Lease liabilities	**-**	**-**	**-**	**-**	**4,848**	**4,848**	
Other liabilities	**-**	**-**	**-**	**-**	**43,178**	**43,178**	
Total liabilities and equity	**260,156**	**350,038**	**385,552**	**48,590**	**51,464**	**1,095,800**	
Interest rate sensitivity gap	**593,152**	**(207,113)**	**(87,163)**	**(48,590)**	**13,011**	**263,297**	

4 FINANCIAL RISK MANAGEMENT continued

Market risk continued
Interest rate risk continued

	Up to 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non-interest bearing AED'000*	*Total AED'000*	*Effective interest rate*
At 31 December 2018							
Assets							
Cash and bank balances	62,895	-	-	-	276,189	339,084	1.85%
Loans and advances, net	652,666	142,603	415,848	-	-	1,211,117	26.93%
Property and equipment	-	-	-	-	9,885	9,885	
Intangible assets	-	-	-	-	8,676	8,676	
Other assets	-	-	-	-	11,690	11,690	
Total assets	715,561	142,603	415,848	-	306,440	1,580,452	
Liabilities and equity							
Customers' deposits	201,333	340,677	508,583	77,305	-	1,127,898	4.75%
Borrowings	43,750	131,250	145,833	-	-	320,833	5.09%
Due to related parties	-	-	-	-	507	507	
Provision for employees' end of service benefits	-	-	-	-	2,506	2,506	
Other liabilities	-	-	-	-	79,207	79,207	
Total liabilities and equity	245,083	471,927	654,416	77,305	82,220	1,530,951	
Interest rate sensitivity gap	470,478	(329,324)	(238,568)	(77,305)	224,220	49,501	

4 FINANCIAL RISK MANAGEMENT continued

Market risk continued
Interest rate risk continued
Interest rate sensitivity
The Company is exposed to the effects of fluctuations in the prevailing levels of rates of interest on its cash flows.

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Company assumes a fluctuation in interest rates of 10 basis points (bps) and estimates the following impact on the net result for the year and equity at that date:

	2019	*2018*
	AED'000	*AED'000*
Favorable (unfavorable) impact of fluctuation in interest rates by 10 bps	**276**	(120)

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk
The Company does not have any significant foreign currency exposures, since its transactions are in UAE Dirham or US Dollar and the UAE Dirham is currently pegged against the US Dollar.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal and compliance risk but excluding strategic or reputation risk.

The operational risk governance structure is embedded in the three lines of defense model and is complemented by the functioning of the Operational Risk Committee at the Executive level. At the board level, principal responsibility for oversight of operational risk management rests with the Risk Committee. The Risk Committee provides oversight, inquiry and challenge with respect to the risk management framework, including operational risk. In exercising its oversight role, the Risk Committee relies on the management to establish appropriate policies, procedures and practices.

Capital management
The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, is:

- to comply with the capital requirements set by its regulator;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- to maintain a strong capital base to support the development of its business.

The objective of the Company's capital management is to ensure that it maintains a healthy capital ratio to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In order to address erosion of capital due to heavy incidence of loan losses since 2016, the Company has increased its capital by launching a right issue in February 2019 (Note 15).

The Central Bank of UAE ('CBUAE') supervises finance companies and sets minimum capital requirements for those finance companies. The Company ensures compliance with minimum capital requirements of CBUAE.

5 CASH AND BANK BALANCES

For the purpose of the cash flow statement, cash and cash equivalents have been calculated as follows:

	2019 *AED'000*	*2018* *AED'000*
Cash in hand	**-**	218
Bank balances	**106,407**	306,680
Bank deposits	**248,644**	35,611
	355,051	342,509
Less: provision for expected credit losses (ECL) (note 4)	**(228)**	(3,425)
	354,823	339,084
Cash and bank balances	**355,051**	342,509
Less: bank deposits with maturities greater than three months	**(30,644)**	-
Cash and cash equivalents	**324,407**	342,509

Movement in provision for expected credit losses:

	2019 *AED'000*	*2018* *AED'000*
At 1 January	**3,425**	-
Adjustment on initial application of IFRS 9	**-**	1,683
At 1 January (adjusted)	**3,425**	1,683
(Reversal) impairment charge for the year (note 20)	**(3,197)**	1,742
At 31 December	**228**	3,425

Deposits with banks are placed with financial institutions in the UAE and carry interest at the rate of 1.55% to 3.50% (2018: 1.34% to 2.80%) per annum.

Deposits of AED 35.1 million (2018: AED 35.6 million) have been pledged against guarantees issued by a bank on behalf of the Company.

6 LOANS AND ADVANCES, NET

	2019 *AED'000*	*2018* *AED'000*
Personal loans	**2,068,711**	2,172,271
Auto loans	**80,585**	100,664
Credit cards	**1,590,640**	1,670,574
	3,739,936	3,943,509
Less: Provision for expected credit losses (ECL) (note 4)	**(2,784,296)**	(2,732,392)
	955,640	1,211,117

6 LOANS AND ADVANCES, NET continued

Movement in provision for expected credit losses:

	2019 ***AED'000***	*2018* *AED'000*
At 1 January	**2,732,392**	2,059,868
Changes on initial application of IFRS 9	**-**	320,562
Impairment charge for the year (note 4, 20)	**303,134**	692,447
Interest and fees in suspense reclassified	**(358)**	20,776
Less: Written off during the year (note 4)	**(203,190)**	(322,644)
Less: Recoveries during the year (note 4, 20)	**(47,682)**	(38,617)
At 31 December	**2,784,296**	2,732,392

All the loans and advances are provided to UAE consumers.

7 PROPERTY AND EQUIPMENT

	Office equipment AED'000	*Leasehold improvements AED'000*	*Motor vehicles AED'000*	*Total AED'000*
Cost				
At 1 January 2018	26,372	19,660	1,120	47,152
Additions	1,090	1,075	448	2,613
Reclassification (Note 8)	(3,359)	-	-	(3,359)
Disposals	(158)	(726)	(764)	(1,648)
At 31 December 2018	23,945	20,009	804	44,758
Additions	307	2,254	-	2,561
Write offs during the year	(1,477)	(6,162)	-	(7,639)
At 31 December 2019	**22,775**	**16,101**	**804**	**39,680**
Accumulated depreciation				
At 1 January 2018	16,809	15,009	552	32,370
Charge for the year	2,583	1,451	201	4,235
Reclassification (Note 8)	(917)	-	-	(917)
On disposals	(158)	(234)	(423)	(815)
At 31 December 2018	18,317	16,226	330	34,873
Charge for the year	2,222	1,293	144	3,659
Write offs during the year	(1,370)	(6,103)	-	(7,473)
At 31 December 2019	**19,169**	**11,416**	**474**	**31,059**
Net book value				
At 31 December 2019	**3,606**	**4,685**	**330**	**8,621**
At 31 December 2018	5,628	3,783	474	9,885

8 INTANGIBLE ASSETS

	Credit bureau implementation AED'000	*Computer software AED'000*	*Capital work in progress AED'000*	*Total AED'000*
At 1 January 2018	1,653	5,097	-	6,750
Additions	-	1,486	5,673	7,159
Reclassification (Note 7)	-	2,442	-	2,442
Amortisation charge for the year	(904)	(1,883)	-	(2,787)
Impaired during the year	(327)	(4,561)	-	(4,888)
At 31 December 2018	422	2,581	5,673	8,676
Additions	**-**	**7,325**	**3,144**	**10,469**
Capitalised during the year	**-**	**8,817**	**(8,817)**	**-**
Written off during the year	**-**	**(466)**	**-**	**(466)**
Amortisation charge for the year	**(422)**	**(2,692)**	**-**	**(3,114)**
At 31 December 2019	**-**	**15,565**	**-**	**15,565**

9 OTHER ASSETS

	2019 AED'000	*2018 AED'000*
Prepaid expenses	**4,929**	4,341
Prepaid rent	**500**	1,592
Advances to employees	**347**	412
Accrued interest receivable	**1,042**	347
Deposits	**828**	715
Repossessed vehicles, net of impairment allowance	**-**	448
VAT refundable, net	**2,589**	-
Others	**1,792**	3,910
	12,027	11,765
Less: provision for expected credited losses (ECL) (Note 4)	**(125)**	(75)
	11,902	11,690

Movement in provision for expected credit losses:

	2019 AED'000	*2018 AED'000*
At 1 January	**75**	-
Adjustment on initial application of IFRS 9	**-**	340
At 1 January (adjusted)	**75**	340
Charge for the year (note 20)	**50**	(265)
At 31 December	**125**	75

10 CUSTOMERS' DEPOSITS

	2019	2018
	AED'000	*AED'000*
Corporate term deposits	**952,669**	1,127,898

Customer deposits carry an average interest rate of 4.85% (31 December 2018: 4.8%) per annum. Customers' deposits of AED 296 million (31 December 2018: AED 349.4 million) are held as collateral for guarantees issued or to be issued on behalf of customers.

11 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise of shareholders and directors of the Company and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the Board and are made on terms agreed by the Board.

The Company has entered into the following significant transactions with related parties in the ordinary course of business:

	2019	2018
	AED'000	*AED'000*
Deposits		
Interest accrued for the year	**157**	663
Expenses		
Fees charged by Dunia Services FZ LLC for the provision of business and knowledge processing services on mutually agreed terms	**55,826**	83,949
Cash settlements with Dunia Services FZ LLC	**72,408**	69,211

Compensation of key management personnel
The compensation of key management personnel during the year was as follows

	2019	2018
	AED'000	*AED'000*
Salaries and other short-term employee benefits	**11,633**	13,407

Salaries and other short-term employee benefits do not include gratuity settlements made during the year.

11 RELATED PARTY TRANSACTIONS AND BALANCES continued

The following represents balances with related parties:

	2019 AED'000	*2018 AED'000*
Deposit from Dunia Services FZ LLC	**-**	17,000
Due from (to) Dunia Services FZ LLC	**7,305**	(507)

The balances due to related parties are payable on demand and bear no interest.

Deposit from Dunia Services FZ LLC carries interest at the rate of 2.85% per annum (2018: 2.85% per annum).

12 BORROWINGS

	2019 AED'000	*2018 AED'000*
Term loan	**91,667**	320,833
Repayable within 1 year	**(91,667)**	(175,000)
Repayable after 1 year	**-**	145,833

On 6 May 2015, the Company entered into an AED 200 Million loan agreement with a commercial bank for a period of 15 months, which was extended until 27 October 2020 according to an amendment to the agreement signed on 16 July 2017. The term loan carries interest of 1 month EIBOR plus margin, which is payable monthly. During the year, the Company has made principal repayments of AED 229,166 thousand. The term loan is secured through assignment of eligible receivables..

13 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2019 AED'000	*2018 AED'000*
At 1 January	**2,506**	6,946
Charge for the year (Note 22)	**917**	1,826
Transfer from Dunia Services	**847**	-
Payments during the year	**(832)**	(6,266)
At 31 December	**3,438**	2,506

13 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS continued

The provision for end of service benefits due to expatriate employees is made in accordance with the UAE Labour Law for their periods of service up to the balance sheet date. In accordance with the provisions of IAS 19, an actuary has carried out an exercise to assess the present value of its obligations as at 31 December 2019, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law.

Under this method an assessment has been made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service

The significant actuarial assumptions were as follows:

	2019 (%age)	*2018 (%age)*
Discount rate	**2.19**	3.59
Salary growth rate for the next 5 years	**6.00**	6.00
Salary growth rate starting after the 6th year	**3.00**	3.00
Employee turnover	**25.00**	25.00

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions for movement of each of the underlying assumption by +/-1% is shown in the below table:

	Change in assumption		***Impact on current provision***					
			Increase			*Decrease*		
	2019 (%)	***2018 (%)***		***2019 (%)***	***2018 (%)***		***2019 (%)***	***2018 (%)***
Discount rate	1	1	Decrease in assumptions	2.9	2.8	Increase in assumptions	3.2	3.0
Salary growth rate	1	1	Increase in assumptions	3.0	2.9	Decrease in assumptions	2.9	2.7
Employee turnover	1	1	Decrease in assumptions	0.4	0.1	Increase in assumptions	0.3	0.1

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

14 OTHER LIABILITIES

	2019	*2018*
	AED'000	*AED'000*
Accrued expenses	**18,357**	44,415
Other employee benefits (Note 16)	**1,066**	3,727
Sundry creditors	**19,691**	24,119
Deferred fee and commission income	**3,150**	4,783
VAT payable, net	**-**	1,241
Others	**914**	922
	43,178	79,207

15 SHARE CAPITAL

	2019	*2018*
	AED'000	*AED'000*
Authorised, issued and paid up share capital:		
8,895,830 shares (2018: 5,500,000 shares) of AED 100 each	**889,583**	550,000

During February 2019, the Company launched a rights issue of shares of AED 350,000,000. This issuance has been subscribed to the extent of AED 339,583,000 in April 2019.

16 OTHER EMPLOYEE BENEFITS

The Company establishes and implements an annual Deferred Bonus Plan in the form of deferred cash plans payable over three successive years. These benefits are expected to be settled on the anniversary of the grant in each of three successive years following the year in which the annual award was granted.

As of 31 December 2019 the accrual in respect of the Deferred Bonus Plan is AED 1.1 million (31 December 2018: AED 3.7 million) and is determined on the basis of the assumption that all the eligible employees will remain with the Company during the period covered by the plan.

17 STATUTORY RESERVE

In accordance with the UAE Federal Law No. 2 of 2015, and the UAE Union Law No. 10 of 1980, as amended, 10% of the net profit for the year is transferred to a statutory reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution. There was no transfer required to the statutory reserve on 31 December 2019 as the Company recorded a net loss for the year.

18 SPECIFIC RESERVE

In accordance with the requirements of the Central Bank of the U.A.E (CBUAE), the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under IFRS 9 for assets classified under Stage 3 is transferred to a 'Specific provision reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Company taken provision in accordance with the requirements of the CBUAE, the losses for the year would have been higher by AED 66.5 million (2018: AED 30.5 million).

19 INTEREST INCOME AND EXPENSE

	2019 AED'000	*2018 AED'000*
Interest income:		
- on loans and advances	**263,556**	490,534
- on deposits with banks	**8,341**	4,030
	271,897	494,564
Interest expense:		
- on customer deposits	**49,600**	57,920
- on borrowings	**11,342**	13,527
- on lease liability	**41**	-
	60,983	71,447

20 IMPAIRMENT CHARGE, NET

	2019 AED'000	*2018 AED'000*
Impairment charge on loans and advances (Note 4, 6)	**303,134**	692,447
Reversal of impairment charge on bank balances (Note 5)	**(3,197)**	1,742
Impairment charge on other assets (Note 9)	**50**	(265)
Impairment charge on intangible assets (Note 9)	**-**	4,888
Impairment (reversal) charge on repossessed vehicles	**1,338**	(123)
Recovery of loans and advances (Note 4, 6)	**(47,682)**	(38,616)
	253,643	660,073

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 AED'000	2018 AED'000
Staff costs (Note 22)	**34,156**	41,611
Outsourced services	**75,833**	88,579
Information technology expenses	**14,253**	14,165
Occupancy costs	**7,240**	9,105
Bank charges	**2,469**	3,294
Card member benefits	**4,089**	2,900
Legal and professional fees	**5,383**	17,044
Advertising, publicity and promotional expenses	**7,278**	3,200
Card association charges	**2,609**	3,725
Telephone charges	**2,102**	4,056
Repossession expenses	**216**	4,605
Credit bureau and collection charges	**5,702**	4,339
VAT expenses	**5,114**	4,776
Other expenses (i)	**7,359**	6,752
	173,803	208,151

(i) Social contributions made during the year by the Company amounted to AED 4,000 (2018: AED nil).

22 STAFF COSTS

	2019 AED'000	2018 AED'000
Salaries and other benefits	**33,239**	39,785
Employees' end of service benefits (Note 13)	**917**	1,826
	34,156	41,611

23 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases for properties are as follows:

	2019 AED'000	2018 AED'000
Within 1 year	**-**	2,486
After one year but not more than five years	**-**	7,891
	-	10,377

23 CONTINGENT LIABILITIES AND COMMITMENTS continued

(b) Commitments to extend credit and guarantees

	2019 AED'000	*2018 AED'000*
Unused credit card limits	**14,621**	17,729
Financial guarantees	**264,790**	334,762
	279,411	352,491

The total outstanding contractual amount of commitment towards unused credit card limits does not necessarily represent future cash requirements, since these credit card limits may not be fully utilised and are revocable at the option of the Company. In accordance with the BCBS Basel III paper published in December 2017 a 10%, Credit Conversion Factor will be applied to commitments that are unconditionally cancellable at any time by the Company without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness. The Company has ascertained that the impact of expected credit losses on the unused credit card limits facility that is not material to its financial statements.

Financial guarantees represent guarantees issued by the Company on behalf of customers favouring the UAE Ministry of Labour and other government bodies and are substantially secured by cash collateral. Hence there is no impact of IFRS 9 with respect to Expected Credit Losses (ECL) on the financial guarantees.

(c) Capital commitments

At 31 December 2019, the Company has capital commitments of AED 1,781,411 (31 December 2018: AED 8,269,939).