Tamweel P.S.C.

Consolidated financial statements
for the year ended 31 December 2019

TAMWEEL

Report and consolidated financial statements
for the year ended 31 December 2019

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TAMWEEL

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INDEPENDENT AUDITOR'S REPORT

To The Shareholders
Tamweel P.S.C.
Dubai
United Arab Emirates

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 3 February 2019.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report which we obtained prior to the date of this auditor's report and the Internal Shari'ah Supervisory Committee's report which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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Independent Auditor's Report (continued)

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

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

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

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

Auditor's Responsibilities for the Audit of the 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 consolidated financial statements.

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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Independent Auditor's Report (continued)

Report on Other Legal and Regulatory Requirements

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Company has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the Company's books of account;
- Note 8 to the financial statements of the Company discloses its investments in shares during the financial year ended 31 December 2019;
- Note 27 to the financial statements of the Company discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- Note 12 to the financial statements discloses social contributions made during the financial year ended 31 December 2019.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E)

Musa Ramahi
Registration No: 872
9 February 2020
Dubai
United Arab Emirates

Consolidated statement of financial position
as at 31 December 2019

	Note	2019 AED'000	2018 AED'000
ASSETS			
Bank balances and cash	6	**151,724**	119,637
Islamic financing and investing assets, net	7	**1,937,855**	2,436,090
Other investments carried at FVTOCI	8	**65,911**	59,810
Investment properties	9	**879,503**	849,539
Advances, prepayments and other receivables	10	**74,020**	47,596
Property and equipment	11	**11,260**	12,329
Total assets		**3,120,273**	3,525,001
LIABILITIES AND EQUITY			
LIABILITIES			
Zakat payable	12	**3,878**	3,478
Accounts payable, accruals and other liabilities	13	**66,781**	59,188
Islamic financing obligations	14	**185,000**	790,000
Total liabilities		**255,659**	852,666
EQUITY			
Share capital	15	**1,000,000**	1,000,000
Statutory reserve	16	**279,039**	260,033
General reserve	17	**538,980**	538,980
Special reserve	18	**102,951**	102,951
Investment fair value reserve		**37,950**	31,849
Retained earnings		**905,694**	738,522
Total equity		**2,864,614**	2,672,335
Total liabilities and equity		**3,120,273**	3,525,001

Varun Sood
Acting Chief Executive Officer

Abdullah Ali Al Hamli
Chairman

The notes on pages 9 to 48 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
for the year ended 31 December 2019

	Note	**2019 AED'000**	2018 AED'000
NET INCOME			
Income from Islamic financing and investing assets	*19*	**135,815**	162,025
Other income	*20*	**242,590**	88,984
Total income		**378,405**	251,009
Less: depositors'share of profit and related costs		**(26,084)**	(56,546)
Net income		**352,321**	194,463
OPERATING EXPENSES			
Personnel expenses		**(55,487)**	(54,786)
General and administrative expenses		**(18,271)**	(9,559)
Depreciation of investment properties	*9*	**(16,076)**	(14,534)
Depreciation of property and equipment	*11*	**(1,069)**	(1,058)
Total operating expenses		**(90,903)**	(79,937)
Net operating income before impairment charges		**261,418**	114,526
Impairment (charges) / reversals	*21*	**(71,362)**	30,617
Profit for the year		**190,056**	145,143

The notes on pages 9 to 48 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	2019 AED'000	2018 AED'000
Profit for the year	**190,056**	145,143
Other comprehensive income / (loss) items		
Items that will not be reclassified subsequently to profit or loss:		
Fair value gain / (loss) on other investments carried at FVTOCI	**6,101**	(5,024)
Total comprehensive income for the year	**196,157**	140,119

The notes on pages 9 to 48 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2019

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Special reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2018	1,000,000	245,519	538,980	102,951	36,873	631,371	2,555,694
Profit for the year	-	-	-	-	-	145,143	145,143
Other comprehensive loss for the year	-	-	-	-	(5,024)	-	(5,024)
Total comprehensive income / (loss) for the year	-	-	-	-	(5,024)	145,143	140,119
Dividends paid	-	-	-	-	-	(20,000)	(20,000)
Transfer to statutory reserve	-	14,514	-	-	-	(14,514)	-
Zakat (Note 12)	-	-	-	-	-	(3,478)	(3,478)
Balance at 31 December 2018	1,000,000	260,033	538,980	102,951	31,849	738,522	2,672,335
Balance at 1 January 2019	**1,000,000**	**260,033**	**538,980**	**102,951**	**31,849**	**738,522**	**2,672,335**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**190,056**	**190,056**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**6,101**	**-**	**6,101**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**6,101**	**190,056**	**196,157**
Transfer to statutory reserve	**-**	**19,006**	**-**	**-**	**-**	**(19,006)**	**-**
Zakat (Note 12)	**-**	**-**	**-**	**-**	**-**	**(3,878)**	**(3,878)**
Balance at 31 December 2019	**1,000,000**	**279,039**	**538,980**	**102,951**	**37,950**	**905,694**	**2,864,614**

The notes on pages 9 to 48 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2019

	2019	2018
	AED'000	AED'000
Operating activities		
Profit for the year	**190,056**	145,143
Adjustments for:		
Depreciation of property and equipment	**1,069**	1,058
Depreciation of investment properties	**16,076**	14,534
Provision for employees' end of service benefits	**2,702**	1,766
Depositors'/investors' share of profit and related cost	**26,084**	56,546
Income on mudaraba deposits and wakala investments	**(866)**	(1,586)
Dividend income	**(4,187)**	(4,037)
Impairment charge for the year, net	**71,362**	(30,617)
Gain on disposal of investment properties	**-**	678
Operating cash flows before changes in operating assets and liabilities	**302,296**	183,485
Decrease in wakala deposits with over three months maturity	**-**	66,114
Decrease in Islamic financing and investing assets, net	**380,832**	454,350
(Increase) / decrease in advances, prepayments and other receivables	**(26,878)**	2,583
Increase / (decrease) in accounts payable, accruals and other liabilities	**6,420**	(36,195)
Cash generated from operations	**662,670**	670,337
Employees' end of service benefits paid	**(1,457)**	(2,259)
Zakat paid	**(3,478)**	(3,238)
Depositors'/investors' share of profit and related cost paid	**(26,156)**	(56,365)
Net cash generated from operating activities	**631,579**	608,475
Investing activities		
Other investments carried at FVTOCI	**-**	(9,300)
Dividend income	**4,187**	4,037
Income received on mudaraba deposits and wakala investments	**1,321**	1,494
Proceeds from sale of investment properties	**-**	27,004
Net cash generated from investing activities	**5,508**	23,235
Financing activities		
Settlement of wakala financing, net	**(605,000)**	(540,000)
Dividend paid	**-**	(20,000)
Net cash used in financing activities	**(605,000)**	(560,000)
Net increase in cash and cash equivalents	**32,087**	71,710
Cash and cash equivalents at beginning of the year	**119,637**	47,927
Cash and cash equivalents at end of the year (Note 6)	**151,724**	119,637

The notes on pages 9 to 48 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2019

1. General information

Tamweel P.S.C. (the "Company") was registered on 3 June 2006 as a Public Joint Stock Company and converted from Public to Private Joint Stock Company with effect from 27 August 2014. The parent and ultimate holding Company is Dubai Islamic Bank P.J.S.C. ("DIB" or the "Parent Company"). The share capital of the Company comprises 1,000,000,000 shares of AED 1 each.

The Company is licensed by the U.A.E. Central Bank as a finance company and is primarily engaged in Islamic Sharia'a compliant financing and investment activities such as Ijara, Murabaha, Istisna'a etc. The activities of the Company and its subsidiaries (together the "Group") are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of its Articles and Memorandum of Association. The Group also generates leasing income from its investment properties.

The registered head office of the Group is located in Business Village, B Block, Port Saeed Area, Deira, Emirate of Dubai, U.A.E.

The Group consists of Tamweel P.S.C. and its subsidiaries registered up to 31 December 2019, as listed below:

Subsidiaries	Beneficial ownership	Principal activity	Country of incorporation
Tamweel ESOT Limited	100%	SPE for investment in shares	British Virgin Islands
Tamweel Property (1) Limited	100%	SPE for purchase of assets	D.I.F.C, U.A.E.

In April 2015, DIB made an offer to the holders of non-controlling interest of Tamweel to acquire their shares. DIB acquired further 5.53% shares thereby increasing its ownership to 92%.

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

2.1 New and revised IFRSs applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements. The application of these revised IFRS has not had any material effect on Group financial statements.

The Group has adopted IFRS 16 'Leases', issued in January 2016, with the date of initial application of 1 January 2019. IFRS 16 introduces significant changes to lessee accounting. It removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases and leases of low value assets.

- The Group initially measures the right-of-use asset at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

- The Group initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Notes to the consolidated financial statements
for the year ended 31 December 2019

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

2.1 New and revised IFRSs applied on the consolidated financial statements (continued)

- Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.
- IFRIC 23 Uncertainty over Income Tax Treatments – The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.
- Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendments to IAS 19 Employee Benefits regarding plan amendments, curtailments or settlements.

2.2 New and revised IFRSs in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective. The management is in the process of assessing the impact of the new requirements.

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IAS 1 *Presentation of Financial Statements* regarding the definition of material.	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2022
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2022.	

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

Notes to the consolidated financial statements
for the year ended 31 December 2019

3. Definitions of significant terms

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

Sharia'a

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

Ijara

Ijara (Ijara Muntahia Bittamleek) is an agreement whereby the Group (in its capacity as a lessor,) leases an asset to the customer (as lessee), after acquiring the specified asset according to the customer's request, against certain rental payments for specified lease term. The duration of the lease term, as well as the basis for rental, are set and agreed in advance. The Group retains legal ownership of the asset throughout the arrangement. The arrangement could end by transferring the ownership of the asset to the lessee.

Istisna'a

Istisna'a is a sale contract whereby the Group undertakes to construct for the customer, a specific asset or property according to certain agreed upon specifications at a pre-determined price and for a fixed date of delivery. The work undertaken is not restricted to be accomplished by the Group alone and the whole or part of the construction can be undertaken by third parties under the Group's control and responsibility.

Murabaha

Murabaha is an agreement whereby the Group makes a sale to a customer of an asset that is acquired principally based on a promise received from the customer to buy the relevant asset according to the relevant specific terms and conditions. While making the sale, the Group expressly mentions the costs incurred on the asset that are sold and the profit thereon, to the customer.

Forward Ijara

Forward Ijara (Ijara Mausoofa Fiz Zimma) is an arrangement whereby the Group agrees to provide, on a specified future date, certain described property on lease to the customer upon its completion and delivery by the developer, from whom the Group has purchased the property. The lease rental under Forward Ijara commences only upon the customer having received possession of the property from the Group. The arrangement could end by transferring the ownership of the asset to the lessee.

Mudaraba

Mudaraba is an agreement in which the customer contributes capital and the Group applies its effort. The proportionate share of profit is determined by mutual agreement. The loss, if any, unless caused by negligence or violation of the terms of the agreement, is borne only by the owner of the capital in which case the Group gets nothing for its efforts. The fund provider is known as 'Rab-Al-Mal' and the Group as 'Mudareb'.

Wakala

An agreement whereby the Group provides a certain sum of money to an investment agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The agent is obliged to return the invested amount in case of default, negligence or violation of the terms and conditions of the Wakala.

Sukuk

These comprise asset based, Sharia'a compliant trust certificates.

Notes to the consolidated financial statements
for the year ended 31 December 2019

4. Significant accounting policies

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the U.A.E., including the UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") and the Decretal Federal Law No. (14) of 2018.

4.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for other investments at FVTOCI, which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) which is also the functional currency of the Group and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below.

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved where the Group has:

- power over an investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Notes to the consolidated financial statements
for the year ended 31 December 2019

4. Significant accounting policies (continued)

4.3 Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4.4 Revenue recognition

Revenue is recognised in the consolidated statement of profit or loss as follows:

Ijara income

Ijara income is recognised on an effective profit rate basis over the lease term based on the fixed rental amount outstanding.

Murabaha income

Murabaha income is recognised on an effective profit rate basis over the period of the contract based on the net Murabaha amount outstanding.

Istisna'a income

Istisna'a associated profit margin (difference between the cash price of al-masnoo to the customer and the Group's total Istisna'a cost) is accounted for on an effective profit rate basis over the construction period.

Forward Ijara income

Forward Ijara income during the construction period of the properties is accounted for on an effective profit rate basis over the construction period on account of rentals. Upon completion of the properties, income is recognised on an effective profit rate basis over the period of the contract based on the fixed rental amount outstanding.

Processing fees

Processing fees are recognised when the related services are provided.

4. Significant accounting policies (continued)

4.4 Revenue recognition (continued)

Other income

Income earned on mudaraba deposits and wakala investments is recognised on an effective profit rate basis. Dividend income is recognised when the right to receive the income is established.

4.5 Financial instruments

Financial assets and liabilities are recognised when a Group's entity becomes a party to the contractual provisions of the instrument.

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

4.5.1 Financial assets

All financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, except for those financial assets measured subsequently at fair value through profit or loss, which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification of financial assets

An instrument is classified as an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are classified as 'financial instruments'.

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.1 Financial assets (continued)

Financial assets measured at amortised cost

The Group's financial assets measured at amortised cost include Bank balances and cash, Islamic financing and investing assets and advances and other receivables. Financial assets (other than equity instruments) are measured at amortised cost if both of the following conditions are met:

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

Financial assets (other than equity instruments) meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - FVTPL). They are subsequently measured at amortised cost using the effective profit method less any impairment, with profit revenue recognised on an effective profit method in the consolidated statement of profit or loss.

Subsequent to initial recognition, the Group is required to reclassify financial instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria is no longer met.

The Group may irrevocably elect at initial recognition to classify a financial instrument that meets the amortised cost criteria above as FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Business model assessment

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

- how the performance of the portfolio is evaluated and reported to the Group'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;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchases financial assets going forward.

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

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.1 Financial assets (continued)

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic financing arrangement. Contractual cash flows are consistent with a basic financing arrangement if they represent cash flows that are solely payments of principal and profit on the principal amount outstanding.

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

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

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

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in sharia compliant equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is an Islamic derivative that is not designated and effective as an Islamic hedging instrument or a financial guarantee.

Investments in sharia compliant equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value reserve, within equity. Where the asset is disposed of, the cumulative gain or loss previously accumulated is not transferred to the consolidated statement of profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss when the Group’s right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Notes to the consolidated financial statements
for the year ended 31 December 2019

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.1 Financial assets (continued)

Effective profit method

The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating profit income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective profit rate basis for financial instruments other than those financial assets designated as at FVTPL.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Islamic financing and investing assets

Islamic financing and investing assets include outstanding Ijara fixed rentals, Murabaha sales receivables net of deferred profits, Istisna'a costs incurred to date measured at cash equivalent value and forward Ijara at costs incurred to date. Also included in the Islamic financing and investing assets are Ijara and Forward Ijara variable rental (profit) accruals in addition to Istisna'a and Murabaha amortised profits. These assets are stated at amortised cost net of provisions for impairment and profit suspension, if any.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

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

4. Significant accounting policies (continued)

4.5 Financial instruments (continued)

4.5.2 Financial liabilities and equity instruments

Classification as liability or equity

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

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Financial liabilities

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

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method. The Groups financial liabilities at amortised cost include the wakala financing and payable and other liabilities.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss.

4.6 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at each reporting date.

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are not measured at FVTPL:

- Financial assets that are financing instruments and balances dues from banks;
- Other assets; and
- Off-balance sheet instruments issued.

Financial assets migrate through three stages based on the change in credit risk since initial recognition.

No impairment loss is recognised on equity investments.

4. Significant accounting policies (continued)

4.6 Impairment of financial assets (continued)

Excepted credit loss impairment model

The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. The 12 months ECL is calculated as the portion of life time ECL that represents the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original effective profit rate.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. The PD and LGD are estimated over the lifetime of the instrument and the expected cash shortfalls are discounted by an approximation to the original effective profit rate.
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, with the PD set at 100%.

When estimating ECL for undrawn commitments, the Group estimates the expected portion of the commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

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.

Measurement of ECL

The Group calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective profit rate. A cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Group has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

Notes to the consolidated financial statements
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4. Significant accounting policies (continued)

4.6 Impairment of financial assets (continued)

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

Details of these statistical parameters/inputs are as follows:

- The probability of default (PD) is an estimate of the likelihood of default over a given time horizon;
- The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and

The loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Groupy would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

When estimating the ECLs, the Group considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted financing are expected to be recovered, including the probability that the financing will cure and the value of collateral or the amount that might be received for selling the asset.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- Average oil prices
- Real estate prices of Dubai and Abu Dhabi

Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

4. Significant accounting policies (continued)

4.6 Impairment of financial assets (continued)

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

The group of assets are moved from stage 1 to stage 2 if:

- the probability of default changes beyond the Group's established threshold related to the initial recognition;
- an instrument is past due beyond 30 days; and
- an instrument's credit risk is considered higher based on qualitative criteria of the Group.

The instruments moved to stage 2 from stage 1 remain in the stage until they perform for a sustained period as per Group's policy.

Movement from stage 2 to stage 3 are based on whether the financial assets are credit impaired at the reporting date.

Experienced credit judgement

The Group's ECL allowance methodology requires the use of experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

When measuring ECL, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options.

Default definition followed by the Group for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements. The policy on the write-off of financing transactions remains unchanged.

Expected life

When measuring expected credit loss, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

4. Significant accounting policies (continued)

4.6 Impairment of financial assets (continued)

Definition of default

The Group considers a financial asset to be in default when:

- it is established that due to financial or non-financial reasons the customer is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (if any is held); or
- the customer is past due 90 days or more on any material credit obligation to the Group.
- In assessing whether a customer is in default, the Group considers indicators that are:
  (i) qualitative - e.g. material breaches of covenant;
  (ii) quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
  (iii) based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances

Renegotiated financing facilities

The Group sometimes makes concessions or modifications to the original terms of financing as a response to the financee's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a financing forborne when such concessions or modifications are provided as a result of the financee's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or that the finance may not be in a position to honour contractual commitments. Forbearance may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms. It is the Group's policy to monitor forborne financing to help ensure that future payments continue to be likely to occur. Classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a financing, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the financing has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the financing to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing;
- The probation period of one year has passed from the date the forborne contract was considered performing; and
- Regular payments of more than an insignificant amount of principal or profit have been made during the probation period.

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4. Significant accounting policies (continued)

4.7 Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on investment in buildings is charged on a straight-line basis over 40 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of retirement or disposal.

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

4.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is calculated on a straight line basis over the estimated useful life of 20 years for the building. The carrying value of property and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount, being the higher of its fair value less costs to sell and its value in use.

Expenditure incurred to replace a component of an item of fixed assets that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of fixed assets. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

4.9 Repossessed properties

In certain circumstances, property is repossessed following the foreclosure on financing that are in default. Repossessed properties are initially recognised at fair value and included within ‘Investment properties’.

4. Significant accounting policies (continued)

4.10 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 calculated to their present value using a profit rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

4.11 Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Company and its subsidiaries and is approved by the Internal Sharia Supervisory Committee of the respective entities on the following basis:

- The portion of zakat payable by the Group on its shareholders' behalf is computed at 2.5775% of the aggregate of general and legal reserves, retained earnings, other reserves and provision for staff gratuity. The parent company computes and pays Zakat on its consolidated financial position including its equity in Tamweel P.S.C. Accordingly no Zakat is considered in these consolidated financial statements in respect of shareholders' equity pertaining to parent company.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on the paid up capital is not included in the Zakat computations and is payable by the shareholders personally.

4. Significant accounting policies (continued)

4.12 Provisions

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

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

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

4.13 Employees' end-of-service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

The Group provides end of service benefits for its expatriate employees. Provision for employees' end of service indemnity is made in accordance with the Group's policy which meets the requirements of U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the reporting date.

4.14 Foreign currencies

Transactions in foreign currencies are recorded at rates of exchange prevailing at the dates of the transactions.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange component forms part of its fair value gain or loss. For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial instruments measured at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in other income in the consolidated statement of profit or loss.

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Arab Emirates Dirhams at the rate of exchange ruling at the consolidated statement of financial position date and, their consolidated statement of comprehensive incomes are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the consolidated statement of profit or loss.

4. Significant accounting policies (continued)

4.15 Leases

The Group has adopted IFRS 16 'Leases', issued in January 2016, with the date of initial application of 1 January 2019. IFRS 16 introduces significant changes to lessee accounting. It removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases and leases of low value assets.

The Group initially measures the right-of-use asset at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The Group initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

4.16 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the consolidated statement of financial position date. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted securities fair value is determined by reference to brokers' quotes, recent transaction(s), the market value of similar securities, or based on the expected cash flows calculated at current rates applicable for items with similar terms and risk characteristics.

For investments in properties, fair value is determined periodically on the basis of independent professional valuations.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

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

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

4. Significant accounting policies (continued)

4.17 Offsetting of financial assets and liabilities

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

5. Critical accounting judgments and key sources of estimation of uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

5.1 Significant increase in credit risk

As explained in note 4.6, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

5.2 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 Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

5.3 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 4.6 for more details on ECL.

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

5.4 Classification of financial assets

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

Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold asset in order to collect contractual cash flow and the contractual terms gives rise on specified dates to cash flow that are solely payments of principal and profit.

All other investments are classified as carried at fair value through other comprehensive income.

5.5 Valuation of investment properties

The Group determines the fair value of its investment properties on the basis of market valuations prepared by independent professional valuers. The valuations are carried out on assumptions which are based on the market conditions existing at the reporting date. Therefore, any future change in the market conditions can have an impact on the fair values.

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6. Bank balances and cash

	31 December 2019 AED'000	31 December 2018 AED'000
Bank balances	**151,714**	119,627
Cash in hand	**10**	10
Total	**151,724**	119,637

Bank balances are held with banks within the U.A.E. and are profit generating at an average profit rate of 1.11% (31 December 2018: 1.36%).

7. Islamic financing and investing assets, net

	Note	**31 December 2019 AED'000**	31 December 2018 AED'000
Ijara		**2,106,577**	2,485,831
Istina'a and forward Ijara		**214,120**	216,391
Murabaha receivables and Mudaraba investments		**-**	154,910
		2,320,697	2,857,132
Less: deferred income		**-**	(1,123)
Total Islamic financing and investing assets		**2,320,697**	2,856,009
Less: provisions for impairment	*7.2*	**(382,842)**	(419,919)
Total Islamic financing and investing assets, net		**1,937,855**	2,436,090

All Islamic financing and investing assets financed by the Group are within the United Arab Emirates.

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7. Islamic financing and investing assets, net (continued)

7.1 Carrying value of exposure and expected credit loss by stage

	As at 31 December 2019		As at 1 December 2018	
	Gross book value AED '000	**Expected credit loss AED '000**	Gross book value AED '000	Expected credit loss AED '000
Stage 1	**1,466,079**	**137,101**	2,010,076	155,602
Stage 2	**460,956**	**52,089**	256,521	52,742
Stage 3	**393,662**	**193,652**	589,412	211,575
Total	**2,320,697**	**382,842**	2,856,009	419,919

7.2 Provision for impairment

	Note	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Balance at 1 January		**155,602**	**52,742**	**211,575**	**419,919**
Impairment charge during the year	*21*	**(18,501)**	**(653)**	**71,362**	**52,208**
Write off		**-**	**-**	**(89,285)**	**(89,285)**
Balance at 31 December		**137,101**	**52,089**	**193,652**	**382,842**
2018					
Balance at 1 January		216,137	-	249,301	465,438
Reversal on transition to IFRS 9		(216,137)	-	-	(216,137)
ECL recognized on adoption of IFRS 9		173,889	42,248	-	216,137
Balance at 1 January - restated		173,889	42,248	249,301	465,438
Impairment charge during the year	*21*	(18,287)	10,494	77,176	69,383
Write off		-	-	(114,902)	(114,902)
Balance at 31 December		155,602	52,742	211,575	419,919

The impairment allowance as per IFRS 9 for all financial assets of the Group meets the regulatory provision requirements of the Central Bank of the UAE. Therefore, no regulatory credit risk reserve has been accounted for.

Collateral

The Group enters into collateral arrangements with counter parties in appropriate circumstances to limit credit exposure. Under Ijara financing structure, the legal ownership of the finance property is maintained with the Group until the customer (lessee) has fulfilled all his obligations under the relevant Ijara agreement.

The fair value of the collaterals that the Group holds relating to facilities individually determined to be impaired at 31 December 2019 amounts to AED 329 million (2018: AED 809 million).

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8. Other investments carried at FVTOCI

	31 December 2019 AED'000	31 December 2018 AED'000
Investments measured at FVTOCI		
Balance at the beginning of the year	**59,810**	55,534
Purchased during the year	**-**	9,300
Change in fair value	**6,101**	(5,024)
Balance at the end of the year	**65,911**	59,810

Other investments represents primarily the investment in shares of the parent company and are included in level 1 of the fair value hierarchy.

9. Investment properties

	Land AED'000	Other real estate AED'000	Investment properties under construction AED'000	Total AED'000
Cost				
At 1 January 2019	**367,446**	**636,084**	**-**	**1,003,530**
Additions	**-**	**65,195**	**-**	**65,195**
At 31 December 2019	**367,446**	**701,279**	**-**	**1,068,725**
Accumulated depreciation and impairment				
At 1 January 2019	**75,888**	**78,103**	**-**	**153,991**
Charge for the year	**-**	**16,076**	**-**	**16,076**
Impairment	**17,078**	**2,077**	**-**	**19,155**
At 31 December 2019	**92,966**	**96,256**	**-**	**189,222**
Carrying amount				
At 31 December 2019	**274,480**	**605,023**	**-**	**879,503**

9. Investment properties (continued)

	Land AED'000	Other real estate AED'000	Investment properties under construction AED'000	Total AED'000
2018				
Cost				
At 1 January 2018	367,446	538,856	9,566	915,868
Additions	-	117,860	-	117,860
Disposal	-	(29,568)	-	(29,568)
Transfers	-	(630)	-	(630)
Reclassification	-	9,566	(9,566)	-
At 31 December 2018	367,446	636,084	-	1,003,530
Accumulated depreciation and impairment				
At 1 January 2018	150,888	88,880	1,741	241,509
Charge for the year	-	14,534	-	14,534
Disposals	-	(1,884)	-	(1,884)
Reclassification	-	1,741	(1,741)	-
Transfers	-	(168)	-	(168)
Impairment	(75,000)	(25,000)	-	(100,000)
At 31 December 2018	75,888	78,103	-	153,991
Carrying amount				
At 31 December 2018	291,558	557,981	-	849,539

All the investment properties held by the Group are located within the United Arab Emirates. During the year ended 31 December 2019, the Group repossessed properties of AED 65.1 million (2018: AED 117.9 million) through foreclosure.

The valuations are carried out by professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The valuations were based on comparable transaction method that is made on the principle that the value of one property may be derived by comparing it with the prices achieved from transactions in similar properties.

The fair value of the Group's investment properties as at 31 December 2019 is AED 960 million (2018: AED 990 million). The fair value is mainly based on unobservable market inputs (i.e. level 3).

10. Advances, prepayments and other receivables

	2019 AED'000	2018 AED'000
Administration fee receivable	**10,798**	10,176
Portfolio management fee receivable	**5,400**	4,626
Commission receivable	**4,322**	4,322
Other	**53,500**	28,472
	74,020	47,596

The receivables are stated net of provision of AED 3.3 million (2018: AED 3.3 million).

11. Property and equipment

	2019 AED'000	2018 AED'000
Cost		
Balance at 01 January	**21,732**	21,102
Transfers	**-**	630
Balance at 31 December	**21,732**	21,732
Accumulated depreciation		
Balance at 01 January	**9,403**	8,177
Charge for the year	**1,069**	1,058
Transfers	**-**	168
Balance at 31 December	**10,472**	9,403
Carrying value at 31 December	**11,260**	12,329

12. Zakat

As at 31 December 2019 an amount of AED 3.8 million (2018: AED 3.5 million) has been accrued as zakat liability.

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for the year ended 31 December 2019

13. Accounts payable, accruals and other liabilities

	Note	**2019 AED'000**	2018 AED'000
Profit payable on Islamic financing obligations		**451**	904
Accounts payable		**12,335**	8,850
Unclaimed dividends		**15,298**	15,315
Employees' end of service benefits	*13.1*	**11,868**	10,623
Accrual and other liabilities		**26,829**	23,496
		66,781	59,188

13.1 Employee end of service benefits

	2019 AED'000	2018 AED'000
Balance at beginning of the year	**10,623**	11,116
Charge for the year	**2,702**	1,766
Paid during the year	**(1,457)**	(2,259)
	11,868	10,623

14. Islamic financing obligations

	2019 AED'000	2018 AED'000
Wakala	**185,000**	790,000
Total	**185,000**	790,000

Wakalas

Short term Wakala deposits are received from DIB. The effective average profit rate on these Wakalas was 5.15% per annum (31 December 2018: 5.15 % per annum).

15. Share capital

As at 31 December 2019, 1,000,000,000 authorised ordinary shares of AED 1 each (31 December 2018: 1,000,000,000 ordinary shares of AED 1 each) were fully issued and paid up.

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16. Statutory reserve

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

17. General reserve

As per the Company's Articles of Association, deductions for the general reserve shall stop by resolution of an Ordinary General Assembly upon the recommendation of the Board of Directors when this reserve reaches 50% of the paid up capital of the Company. The Board of Directors have not proposed any transfer to General Reserve as the reserve is in excess of the 50% of the paid up capital of the Company. This reserve shall be utilised for the purpose determined by the General Assembly at an ordinary meeting upon the recommendation of the Board of Directors.

18. Special reserve

The special reserve, which was created in accordance with the recommendations of the U.A.E. Central Bank, is not available for distribution.

19. Income from Islamic financing and investing assets

	2019 **AED'000**	2018 AED'000
Income from Islamic financing and investing assets	**128,674**	152,293
Processing and other fee income	**7,141**	9,732
	135,815	162,025

20. Other income

	2019 **AED'000**	2018 AED'000
Portfolio management fee	**21,600**	18,504
Rental income from investment properties	**27,592**	16,332
Others	**193,398**	54,148
	242,590	88,984

Other income includes an amount of AED 170.9 m on account of favourable judgement in a court case.

21. Impairment charges, net

	Note	**2019** **AED'000**	2018 AED'000
Charge for Islamic financing and investing assets, net	*7.2*	**52,208**	69,383
Charge / (release) on investment properties		**19,154**	(100,000)
		71,362	(30,617)

22. Commitments

Irrevocable commitment to extend credit as of 31 December 2019 is AED 141.1 million (31 December 2018: AED 142.2 million).

23. Contingencies

a) The parent company has provided a guarantee of AED 50 million (31 December 2018: AED 50 million) favoring the U.A.E. Central Bank against the share capital.

b) At the reporting date, the Group is in legal proceedings against certain customers in the UAE to recover AED 6.4 million (31 December 2018: AED 140 million). These proceedings are in various stages in the courts and based on legal advice, the management of the Group is contesting the legal cases and is pursuing the full recovery of the outstanding balances. Accordingly, no provision for litigation has been made in these consolidated financial statements.

24 Risk management

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement, mitigation and monitoring and by subjecting risk to limits and other controls. As Tamweel is a critical component of its parent's home finance department, overall risk management activities are carried out at parent level through its own corporate governance and risk management structure. This process of risk management is critical to Group's continuing profitability and sustainability. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

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

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

As detailed below, the Board of Directors of the Company is supported by the Board Risk Management Committee, Risk Management Committee, Risk Management Department, Assets and Liabilities Management Committee and Internal Audit department of its parent, for identifying, monitoring and managing risks.

Board Risk Management Committee

The Board Risk Management Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

Risk Management Committee

The day-to-day management of risk has been delegated to Risk Management Committee.

The Risk Management Committee has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategy, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

24. Risk management (continued)

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Internal Audit Department

Risk management processes throughout the Group are audited periodically by the Group Internal Audit Department which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit Department comments on the results of their assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Asset and Liability Committee

Asset and Liability Management Committee ("ALCO") is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

The ALCO monitors the asset performance and financial position of the Group. The ALCO is also responsible for establishing risk management standards and methodologies, monitoring liquidity and alternative funding sources, reviewing market rate risk and regulatory capital levels and determining pricing parameters and Tamweel's base profit rate.

Sharia'a Supervisory Board

In compliance with Tamweel's memorandum and Articles of Association, Tamweel has a Sharia'a Supervisory Board which oversees all areas of operation in order to ensure that Tamweel's business activities are in accordance with Sharia'a principles. The Sharia'a Supervisory Board is responsible to review the operational, financing and investing activities of the Group ensuring their alignment and compliance with the principles of Islamic Sharia'a as interpreted by it. Being a supervisory board they are also required to audit the business activities undertaken and present an independent report to the shareholders with regard to the implementation of the principles of Sharia'a in the Group's overall activities.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive and up-to-date information necessary for their proper management and monitoring of risks inherent in the activities.

Types of Risk the Group is subject to:

Concentration risk

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

In order to avoid excessive concentration of risk, the Group's policies and procedures include specific guidelines to maintain a diversified portfolio. This is further enforced by the Credit Committee's oversight. Identified concentration of credit risks are controlled and managed accordingly.

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24. Risk management (continued)

Credit risk

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

The Group attempts to control credit risk by monitoring credit exposures, maintaining credit limits and limiting transactions with specific counterparties. The Group has built and maintains a sound credit portfolio within the guidelines of the Board approved credit policy. The Group has an established risk management process encompassing of credit approvals, control of exposures, credit policy direction to business unit, well-designed credit appraisals, review of exposures both on an individual and a portfolio basis, and incorporation of robust problem credit management procedures. Special attention is directed towards the management of past-due financing assets through a dedicated Collection Team.

The Group enters in collateral arrangements with counterparties in appropriate circumstances to limit credit exposure. With a relatively dominant Ijara financing structure, the ownership of the financed property is maintained with the Group until the customer (lessee) has fulfilled all his obligations under the relevant Ijara.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

	Gross maximum exposure 2019 AED'000	Gross maximum exposure 2018 AED'000
Bank balances	**151,714**	119,627
Islamic financing and investing assets	**2,320,697**	2,856,009
Advances and other receivables	**76,709**	50,012
Total	**2,549,120**	3,025,648
Irrevocable commitments to extend credit	**141,122**	142,188

For more details on the maximum exposure to credit risk for each class of financial instrument, references should be made to the specific notes.

The Group's financial assets, before taking into account any collateral held or other credit enhancements are analysed by business segment in Note 25.

Notes to the consolidated financial statements
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24. Risk management (continued)

Credit risk (continued)

The gross maximum exposure of the Group spread across banking, real estate and other industries; however the whole exposure is based primarily in the U.A.E.

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

At 31 December 2019	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Bank balances	**151,714**	**-**	**-**	**151,714**
Islamic financing and investing assets				
Moderate	**1,420,370**	**272,296**	**-**	**1,692,666**
Fair	**45,709**	**188,660**	**-**	**234,369**
Default	**-**	**-**	**393,662**	**393,662**
Advances and other receivables	**73,412**	**-**	**3,297**	**76,709**
	1,691,205	**460,956**	**396,959**	**2,549,120**
At 31 December 2018				
Bank balances	119,627	-	-	119,627
Islamic financing and investing assets				
Moderate	1,951,435	47,067	-	1,998,502
Fair	50,172	217,923	-	268,095
Default	-	-	589,412	589,412
Advances and other receivables	46,715	-	3,297	50,012
	2,167,949	264,990	592,709	3,025,648

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

24. Risk management (continued)

Collateral and other credit enhancements

The finance provided by the Group is asset backed in accordance with the principles of Sharia'a. Properties are funded based on "Group's Appraised Value". In the case of new properties, the appraised value is similar to the developers' per square footage rate further assessed by independent valuers. However, in some cases the Group might have lower rates than the developers based on the Group's view of the property. In case of older properties the appraised value is determined by the Credit Department. These valuations are based on the valuation report from valuers, whenever required, and the property prices witnessed in the Group past funding transactions.

The fair value of the asset collaterals is estimated to be approximately AED 3.7 billion as at 31 December 2019 (2018: AED 5.1 billion).

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

Analysis of credit quality

2019	**Bank balances AED'000**	**Islamic financing and investing assets AED'000**	**Advances and other receivables AED'000**	**Total AED'000**
Individually impaired	**-**	**393,662**	**3,297**	**396,959**
Non-impaired exposures				
Neither past due nor impaired	**151,714**	**1,466,079**	**73,412**	**1,691,205**
Past due by less than 30 days	**-**	**370,706**	**-**	**370,706**
Past due by more than 30 days but less than 90 days	**-**	**90,250**	**-**	**90,250**
Gross amount	**151,714**	**1,927,035**	**73,412**	**2,152,161**
Total gross maximum exposure	**151,714**	**2,320,697**	**76,709**	**2,549,120**
Provisions for impairment	**-**	**(382,842)**	**(3,297)**	**(386,139)**
Net carrying amount	**151,714**	**1,937,855**	**73,412**	**2,162,981**
2018				
Individually impaired	-	589,412	3,297	592,709
Non-impaired exposures				
Neither past due nor impaired	119,627	2,010,076	46,715	2,176,418
Past due by less than 30 days	-	197,743	-	197,743
Past due by more than 30 days but less than 90 days	-	58,778	-	58,778
Gross amount	119,627	2,266,597	46,715	2,432,939
Total gross maximum exposure	119,627	2,856,009	50,012	3,025,648
Provisions for impairment	-	(419,918)	(3,297)	(423,215)
Net carrying amount	119,627	2,436,091	46,715	2,602,433

Notes to the consolidated financial statements
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24. Risk management (continued)

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. In the Group's consolidated financial statements, mainly two line items can lead to such exposure i.e. Islamic financing assets and Islamic financing obligations, as shown on the assets and liability sides respectively. The profit rate risk for the Group is minimal in the short term period.

The profit rate for financing assets is a composition of EIBOR and internal spread which cannot be expected to fluctuate frequently based on EIBOR movement. The Group reviews the profit rate on a monthly basis during its ALCO meeting and, if required, recommends rate change based on market conditions and competition.

The profit rate on Islamic financing obligations is contractually determined on contract initiation.

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

	Increase in basis points	**2019 AED'000**	2018 AED'000
Sensitivity of net profit income	**50 bps**	**9,534**	11,207

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

All assets and liabilities as at 31 December 2019 are denominated in the U.A.E. Dirhams or US Dollars. U.A.E. Dirham is currently pegged to US Dollar and therefore, the Group is not exposed to any significant currency risk.

24. Risk management (continued)

Equity price risk

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

The effect (as a result of a change in the fair value of equity instruments held at 31 December 2019 and 31 December 2018) due to a reasonably possible change in equity indices, with all other variable held constant, is as follows:

	Change in market indices	Effect on other comprehensive income	
		2019	2018
	%	**AED'000**	AED'000
Sensitivity of fair value	**± 5%**	**3,295**	2,991

Settlement risk

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

The Group does not have any significant early settlement risk as the amount recovered in case of early settlement is more than the fair value of the asset on settlement date, by adding a margin, and to recover amount on time and to avoid any delays. The collection team, supervised by the Credit committee monitors the customer receivable position on a daily basis.

Operational risk

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

Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its funding requirements. This can be caused by political uncertainty, market disruptions or deterioration in the Group's credit ratings.

The Group monitors its liquidity position and funding strategies on an ongoing basis, but recognises that unexpected events, economic or market conditions, earnings problems or situations beyond its control could cause either a short or long-term liquidity crisis.

The Group reviews the maturity gap analysis in its monthly ALCO meetings to identify potential liquidity risks in advance. The gap measures liquidity in five time buckets for each type of asset and liability for each period, as well as cumulatively.

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24. Risk management (continued)

Maturity analysis of assets and liabilities

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2019	Less than 3 month AED'000	3 months to 1year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity AED'000	Total AED'000
Assets						
Bank balances and cash	151,714	-	-	-	10	151,724
Islamic financing and investing assets, net	34,212	104,290	430,317	1,369,036	-	1,937,855
Other investments carried at FVTOCI	-	-	-	-	65,911	65,911
Investment properties	-	-	-	-	879,503	879,503
Advances, prepayments and other receivables	13,072	50,344	10,604	-	-	74,020
Property and equipment	-	-	-	-	11,260	11,260
	198,998	154,634	440,921	1,369,036	956,684	3,120,273
Liabilities						
Zakat payable	3,878	-	-	-	-	3,878
Accounts payable, accruals and other liabilities	16,904	22,711	27,166	-	-	66,781
Financing obligations	185,000	-	-	-	-	185,000
	205,782	22,711	27,166	-	-	255,659

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24. Risk management (continued)

Maturity analysis of assets and liabilities (continued)

At 31 December 2018	Less than 3 month AED'000	3 months to 1year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity AED'000	Total AED'000
Bank balances and cash	119,627	-	-	-	10	119,637
Islamic financing and investing assets, net	44,386	120,203	492,160	1,779,341	-	2,436,090
Other investments carried at FVTOCI	-	-	-	-	59,810	59,810
Investment properties	-	-	-	-	849,539	849,539
Advances, prepayments and other receivables	12,556	23,884	11,156	-	-	47,596
Property and equipment	-	-	-	-	12,329	12,329
	176,569	144,087	503,316	1,779,341	921,688	3,525,001
Zakat payable	3,478	-	-	-	-	3,478
Accounts payable, accruals and other liabilities	13,024	20,226	25,938	-	-	59,188
Financing obligations	790,000	-	-	-	-	790,000
	806,502	20,226	25,938	-	-	852,666

24. Risk management (continued)

Contractual repayment obligations

The maturity profile of the Group's financial liabilities based on contractual payment obligations is as follows:

At 31 December 2019	Less than 3 month AED'000	3 months to 1year AED'000	Over 1 year AED'000	Total AED'000
Zakat payable	3,878	-	-	3,878
Accounts payable, accruals and other liabilities	16,904	22,711	27,166	66,781
Financing obligations	186,561	-	-	186,561
	207,343	22,711	27,166	257,220

At 31 December 2018	Less than 3 month AED'000	3 months to 1year AED'000	Over 1 years AED'000	Total AED'000
Zakat payable	3,478	-	-	3,478
Accounts payable, accruals and other liabilities	13,024	20,226	25,938	59,188
Financing obligations	796,668	-	-	796,668
	813,170	20,226	25,938	859,334

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25. Segment information

For management purposes the Group is organised into two major business segments:

Islamic financing and investing activities - Principally handling Islamic financing and investing activities.

Property investment activities - Principally involved in the purchase and sale of investment properties and related activities including commissions.

These segments are the basis on which the Group reports its segments information. Segment information for the year ended 31 December 2019 and 2018:

	31 December 2019			31 December 2018		
	Islamic financing and investing activities AED'000	**Property investment activities AED'000**	**Total AED'000**	Islamic financing and investing activities AED'000	Property investment activities AED'000	Total AED'000
Gross income	**350,566**	**27,839**	**378,405**	234,290	16,719	251,009
Operating expenses	**(91,574)**	**(8,268)**	**(99,842)**	(106,233)	(14,658)	(120,891)
Depreciation	**(1,069)**	**(16,076)**	**(17,145)**	(1,058)	(14,534)	(15,592)
Segment result	**257,923**	**3,495**	**261,418**	126,999	(12,473)	114,526
Impairment (loss) / reversal	**(52,208)**	**(19,155)**	**(71,362)**	(69,383)	100,000	30,617
Profit / (loss) for the year	**205,715**	**(15,660)**	**190,056**	57,616	87,527	145,143
Segment assets	**2,230,074**	**890,199**	**3,120,273**	2,665,753	859,249	3,525,001
Segment liabilities	**193,510**	**62,149**	**255,659**	660,640	192,026	852,666

No secondary segment information has been provided as currently the operations of the Group are concentrated primarily in the U.A.E.

Notes to the consolidated financial statements
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26. Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018. Capital comprises share capital, statutory reserve, general reserve, special reserve and retained earnings.

27. Related party transactions

Parties are considered to be related if one party has the ability to control or influence over the other party in making financial or operating decisions.

The Group enters into transactions with shareholders, directors, key management personnel and their related concerns in the ordinary course of business at terms agreed between both parties.

The significant balances and transactions of related parties included in the consolidated financial statements are as follows:

2019	**Major shareholders AED'000**	**Companies under common control AED'000**	**Total AED'000**
Bank balances and cash	**151,714**	**-**	**151,714**
Other investments carried at FVTOCI	**65,911**	**-**	**65,911**
Advances, prepayments and other receivables	**5,695**	**1,654**	**7,349**
Islamic financing obligations	**185,000**	**-**	**185,000**
Depositors'/investors' share of profit payable	**451**	**-**	**451**
Income on mudarba deposits and wakala investments	**866**	**-**	**866**
Portfolio management fee	**21,600**	**-**	**21,600**
Other income	**4,187**	**-**	**4,187**
General and administrative expenses	**-**	**11,043**	**11,043**
Depositors'/investors' share of profit and related cost	**26,084**	**-**	**26,084**

2018	Major shareholders AED'000	Companies under common control AED'000	Total AED'000
Bank balances and cash	119,627	-	119,627
Other investments carried at FVTOCI	59,810	-	59,810
Advances, prepayments and other receivables	5,376	1,026	6,402
Islamic financing obligations	790,000	-	790,000
Depositors'/investors' share of profit payable	904	-	904
Income on Islamic financing and investing assets	1,586	-	1,586
Portfolio management fee	18,504		18,504
Other income	4,037		4,037
General and administrative expenses	-	9,130	9,130
Depositors'/investors' share of profit and related cost	56,546	-	56,546

Notes to the consolidated financial statements
for the year ended 31 December 2019

27. Related party transactions (continued)

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

	2019 AED'000	2018 AED'000
Short term employee benefits	**7,567**	8,096
Termination and other benefits	**348**	239
	7,915	8,335

28 Fair values of financial instruments

(1) Fair value of financial instruments measured at amortised cost

The fair values of financial instruments measured at amortised cost are not materially different from their carrying values.

(2) Fair value of financial instruments measured at fair value

Fair value of other investment measured at fair value through other comprehensive income are based on quoted price in an active market and are included in the Level 1 of fair value hierarchy.

29. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 09 February 2020.