

**Amlak Finance PJSC
and its Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



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REPORT OF THE DIRECTORS

The Directors present their report and consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the attached consolidated financial statements.

AUDITORS

Ernst & Young have indicated their willingness to continue as auditors of the Company in 2017 and offer themselves for re-appointment.

Signed on behalf of the Board of Directors

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16 February 2017

Dubai, United Arab Emirates

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Amlak Finance PJSC (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flow and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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



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

(1) Impairment of financing and investing assets

Due to the inherently judgmental nature of the computation of impairment provisions for financing and investing assets, there is a risk that the amount of impairment may be misstated. The impairment of financing and investing assets is estimated by management through the assessment of numerous factors including collection history, value of collateral, status of projects and in consideration of the UAE Central Bank reserving requirements. Due to the significance of financing and investing assets (representing approximately 50% of total assets) and the related estimation uncertainty, this is considered a key audit risk.

The risks outlined above were addressed by us as follows:

For Ijarah customers

- For a sample of customers we performed a recalculation of the specific provision, reviewed supporting information including validation of the underlying property valuation to the third party valuation report and considered the aging of the receivable.
- Our internal real estate valuation specialists reviewed a sample of valuation reports provided by the third party valuers to assess the reasonableness of fair values used to value the collateral used to calculate the provisions.
- We reviewed provision trends of the current year with prior years and investigated significant variances.

For Forward Ijarah customers

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

(2) Fair valuation of investment properties and advances for investment properties

The investment properties and advances for investment properties of the Group represent a significant part of the total assets (approximately 30%) and are recorded at fair value of AED 1,946 million. Management determines the fair value of the investment properties and advances for investment properties on an annual basis and has used an external third party specialist to determine the valuation as at 31 December 2016. The valuation of an investment property at fair value is highly dependent on estimates and assumptions, such as realisable sale value, rental value, occupancy rate, discount rate, maintenance status, financial stability of tenants, market knowledge and historical transactions.



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

(2) Fair valuation of investment properties and advances for investment properties (continued)

Given the size and complexity of the valuation of investment properties and advances for investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we assessed this as a key audit matter.

The risks outlined above were addressed by us as follows:

- We reviewed the assumptions and estimates used by management and the external appraiser in the valuation methodology.
- Our real estate valuation specialists were part of our audit team for challenging the external valuations, including assessment of the assumptions and estimates used.
- We have considered the objectivity, independence and expertise of the external valuers.
- We assessed the appropriateness of the disclosures relating to the sensitivity of the assumptions.

(3) Provision for legal case

The recognition and measurement of the provision for legal cases and the measurement and disclosure of ongoing litigation requires significant judgement. The contingent liability risk relating to ongoing litigation is disclosed in note 30. As explained in Note 11, the Group has an off plan contract with a developer to acquire commercial property against which handover is delayed by a number of years. The Group has commenced arbitration to facilitate the developer to either perform under the contract or to repay the advances paid. Due to the significance of these matters and the difficulty in assessing and quantifying the resulting impact, this is considered to be a key audit risk.

The risks outlined above were addressed by us as follows:

- We reviewed management's assessment of whether a valid legal contract exists between the parties.
- We obtained a confirmation from the Group's external lawyer outlining the facts of the case and interviewed the Group's internal legal counsel.
- We critically assessed the assumptions made and key judgements applied and considered possible alternative outcomes.
- We assessed whether the disclosures in the financial statements adequately reflect the uncertainties associated with this legal case.

(4) Investment deposits and other Islamic financing

Investment deposits and other Islamic financing are considered to be a key matter as they represent approximately 96% of the carrying value of total liabilities of the Group and as they are also subject to an amortised fair value adjustment. As explained in note 17 the nature of the Group's investment deposits significantly changed due to the restructuring undertaken in 2014, resulting in a fixed obligation to be paid to the Other Commercial Financiers and Liquidity Support Providers. Furthermore, as disclosed in note 17, the facility agreement was subject to amendments effective December 2016. Due to the significance of the balance and the impact of the fair value amortisation, this is considered to be a key audit risk.



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

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

The risks outlined above were addressed by us as follows:

- We reviewed and recalculated the unwinding of the fair value adjustment on the investment deposits and other Islamic financing.
- We reviewed the payments and cash sweeps made during the year ended 31 December 2016 and assessed these against the Common Terms Agreement requirements.
- We assessed Group compliance with the requirements of the Common Terms Agreement.
- We reviewed management's assessment of the impact of the December 2016 amendments to the facility agreement and we reviewed the associated disclosures in the consolidated financial statements.

(5) Revenue recognition on sale of properties under development

In 2015, the Group early adopted IFRS 15 - *Revenue from Contracts with Customers* as the Group considered it better reflects the real estate business performance of the Group. Revenue recognition on sale of properties under development relates to plots of land, which have a commitment to develop infrastructure, involves significant inherent risks due to the judgment and estimation used. Audit of judgments around the percentage of completion of projects including the costs incurred to date against the total expected cost of the project and the successful completion of the project in the absence of sale of all the units under that development were items requiring significant audit attention, including:

- 1) The identification of separate performance obligations in the sale agreements;
- 2) The assessment of when and how respective performance obligations are satisfied;
- 3) The ability of the Group to enforce payment for work completed under the terms of its contracts thereby meeting IFRS 15 criteria for revenue recognition over time;
- 4) Total cost of completion of the real estate development to which the sold unit belongs to;
- 5) Collection of the remaining sales consideration; and
- 6) Amount of infrastructure costs to be incurred to complete the development as committed.

The risks outlined above were addressed by us as follows:

- We reviewed the contracts for the sale of plots of land which have a commitment to develop infrastructure to determine the performance obligations of the Group under these contracts and assessed whether these performance obligations are satisfied over time, or at a point in time based on the criteria specified under IFRS 15. With regards the construction performance obligation which was determined to be satisfied over time, our focus under these contracts included the determination of whether the Group has an enforceable right to payment for performance completed to date in order to satisfy ourselves over the revenue recognition under these contracts.
- We reviewed management's estimation of the total costs to complete the infrastructure work, through comparison of the incurred costs to the fixed price contract with the sole contractor, in order to gain comfort over the robustness of the expected total cost of completion of the real estate developments to which the sold units belong to.
- We assessed the allocation of these costs to the sold and unsold units based on their relative area in the real estate development projects by review of the project wise summary of the cost allocation prepared by the management.
- For the performance obligation deemed to be satisfied at a point of time, on a sample basis we tested the appropriate criteria had been met in order for revenue to be recognised.



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

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report there on. We obtained the report of the Group's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this respect.

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

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

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

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

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

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



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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



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

Report on other legal and regulatory requirements

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

- i) the Group has maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Company's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- iv) the consolidated financial information included in the Directors' report is consistent with the books of account of the Group;
- v) investments in shares and stocks during the year ended 31 December 2016, if any, are disclosed in note 10 to the consolidated financial statements;
- vi) note 29 reflects material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would have a material impact on its activities or its financial position; and
- viii) note 32 reflects the social contributions made during the year.

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

For Ernst & Young

Anthony O' Sullivan
Partner
Registration No: 687

16 February 2017

Dubai, United Arab Emirates

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	<i>Notes</i>	<i>2016 AED'000</i>	<i>2015 AED'000</i>
Income from Islamic financing and investing assets	4	200,493	290,756
Fee income		6,119	6,622
Income on deposits		7,135	4,173
Rental income	12	56,602	46,185
Sale of properties under development	13	428,826	74,078
Other income		33,042	18,489
Fair value gain on investment properties	11 & 12	18,070	66,587
		<u>750,287</u>	<u>506,890</u>
(Impairment) / reversal of impairment on:			
- Islamic financing and investing assets		(66,685)	89,443
- Other assets		957	(8,901)
Amortisation of initial fair value gain on investment deposits	17	(110,430)	(132,184)
Operating expenses	5	(171,478)	(166,660)
Cost of sale of properties under development	13	(196,117)	(33,447)
Share of results of an associate	14	27,905	25,202
		<u>234,439</u>	<u>280,343</u>
PROFIT BEFORE DISTRIBUTION TO FINANCIERS / INVESTORS			
Distribution to financiers / investors	6	(127,392)	(141,244)
PROFIT FOR THE YEAR		<u>107,047</u>	<u>139,099</u>
Attributable to:			
Equity holders of the parent		107,440	134,851
Non-controlling interests	27	(393)	4,248
		<u>107,047</u>	<u>139,099</u>
Profit per share attributable to equity holders of the Parent			
Basic profit per share (AED)	7	0.071	0.086
Diluted profit per share (AED)	7	0.034	0.038

The attached notes 1 to 33 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	<i>2016 AED'000</i>	<i>2015 AED'000</i>
Profit for the year		<u>107,047</u>	<u>139,099</u>
Other comprehensive income			
<i>Items that would be reclassified to profit / (loss) in subsequent periods:</i>			
Net (loss) / gain on available-for-sale investments		(2,500)	1,630
Exchange differences on translation of foreign operations	12	<u>(196,966)</u>	<u>(31,278)</u>
Other comprehensive (loss) / income for the year		<u>(199,466)</u>	<u>(29,648)</u>
Total Comprehensive (loss) / income for the year		<u>(92,419)</u>	<u>109,451</u>
Attributable to:			
Equity holders of the parent		(92,026)	105,203
Non-controlling interests		<u>(393)</u>	<u>4,248</u>
		<u>(92,419)</u>	<u>109,451</u>

The attached notes 1 to 33 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

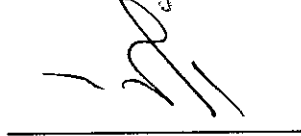
As at 31 December 2016

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Cash and balances with banks	8	620,502	606,440
Islamic financing and investing assets	9	3,219,711	3,459,713
Available-for-sale investments	10	7,688	25,529
Advances for investment properties	11	322,818	322,818
Investment properties	12	1,623,096	1,701,920
Properties under development	13	220,679	386,418
Investment in an associate	14	293,540	282,096
Other assets	15	162,350	88,973
Furniture, fixtures and office equipment	16	22,284	14,168
TOTAL ASSETS		6,492,668	6,888,075
LIABILITIES AND EQUITY			
Liabilities			
Investment deposits and other Islamic financing	17	4,682,024	4,845,232
Term Islamic financing	18	57,704	69,799
Employees' end of service benefits	19	6,157	6,292
Other liabilities	20	135,091	235,442
Total liabilities		4,880,976	5,156,765
Equity			
Equity attributable to equity holders of the parent			
Share capital	21	1,500,000	1,500,000
Employee stock option plan shares	22	(93,048)	(93,048)
Statutory reserve	23	117,690	117,690
General reserve	24	117,690	117,690
Special reserve	25	99,265	99,265
Mudaraba Instrument	26	231,128	231,128
Mudaraba Instrument reserve	26	868,947	868,947
Cumulative changes in fair value		1,663	4,163
Foreign currency translation reserve		(334,691)	(137,725)
Accumulated losses		(1,016,088)	(1,121,371)
Total equity		1,492,556	1,586,739
Non-controlling interests	27	119,136	144,571
Total equity		1,611,692	1,731,310
TOTAL LIABILITIES AND EQUITY		6,492,668	6,888,075

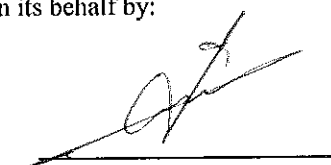
Approved by the Board of Directors on 16 February 2017 and signed on its behalf by:



Chairman



Director



Managing Director &
Chief Executive Officer

The attached notes 1 to 33 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000
OPERATING ACTIVITIES			
Profit for the year		107,047	139,099
Adjustments for:			
Depreciation	16	5,396	6,133
Share of results of associates		(27,905)	(25,202)
(Reversal of impairment)/ Impairment of other assets		(957)	8,901
Impairment/ (Reversal of impairment)			
on Islamic financing and investing assets		66,685	(89,443)
Fair value gain on advances against investment properties	11	-	(10,782)
Fair value gain on investment properties	12	(18,070)	(55,805)
Amortisation of fair value adjustment on investment deposits	17	110,430	132,184
Distribution to financiers / investors		127,392	141,244
Other income		-	(4,106)
Income on deposits		(7,135)	(4,173)
Gain realised on sale of available-for-sale investments		(2,100)	-
Provision for employees' end of service benefits	19	1,287	1,192
Operating profit before changes in operating assets and liabilities:		362,070	239,242
Islamic financing and investing assets		522,828	715,331
Other assets		(72,420)	(29,326)
Other liabilities		(100,608)	98,375
Cash from operations		711,870	1,023,622
Employees' end of service benefits paid	19	(1,422)	(985)
Net cash generated from operating activities		710,448	1,022,637
INVESTING ACTIVITIES			
Dividend from an associate		16,461	10,937
Proceeds from sale of available-for-sale investments		17,400	-
Purchase of available-for-sale investments		(570)	-
Movement in restricted cash flow	8	(178,973)	102,313
Increase in investment properties	12	(15,239)	-
Decrease / (increase) in properties under development		165,739	(23,137)
Proceeds from Wakala deposits		400,000	340,000
Placement of Wakala deposits		(800,000)	(340,000)
Purchase of furniture, fixtures and office equipment	16	(13,512)	(6,377)
Income on deposits		7,135	4,173
Net cash (used in) / from investing activities		(401,559)	87,909
FINANCING ACTIVITIES			
Payment of term Islamic financing		(2,426)	(1,255)
Investment deposits and other Islamic financing, net		(398,013)	(699,007)
Payment to non-controlling interests		(25,042)	-
Repayment of Mudaraba instrument	26	-	(209,314)
Directors' fees paid		(1,530)	(5,700)
Proceed from Term Financing		6,674	20,119
Net cash used in financing activities		(420,337)	(895,157)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(111,448)	215,389
Foreign currency translation reserve		(53,463)	(4,372)
Cash and cash equivalents at the beginning of the year		503,112	292,095
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	338,201	503,112

The attached notes 1 to 33 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Attributable to the equity holders of the parent

	Share capital AED '000	Employee stock option plan shares AED '000	Statutory reserve AED '000	General reserve AED '000	Special reserve AED '000	Mudaraba Instrument AED '000	Mudaraba Instrument reserve AED '000	Cumulative changes in fair value AED '000	Foreign currency translation reserve AED '000	Accumulated losses AED '000	Total AED '000	Non-controlling interests AED '000	Total equity AED '000
At 1 January 2016	1,500,000	(93,048)	117,690	117,690	99,265	231,128	868,947	4,163	(137,725)	(1,121,371)	1,586,739	144,571	1,731,310
Profit for the year	-	-	-	-	-	-	-	-	-	107,440	107,440	(393)	107,047
Other comprehensive loss for the year	-	-	-	-	-	-	-	(2,500)	(196,966)**	-	(199,466)	-	(199,466)
Total comprehensive loss for the year	-	-	-	-	-	-	-	(2,500)	(196,966)	107,440	(92,026)	(393)	(92,419)
Funds paid to project owner *	-	-	-	-	-	-	-	-	-	-	-	(25,042)	(25,042)
Zakat	-	-	-	-	-	-	-	-	-	(627)	(627)	-	(627)
Directors' fee paid (note 30)	-	-	-	-	-	-	-	-	-	(1,530)	(1,530)	-	(1,530)
At 31 December 2016	1,500,000	(93,048)	117,690	117,690	99,265	231,128	868,947	1,663	(334,691)	(1,016,088)	1,492,556	119,136	1,611,692

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

** This relates to foreign exchange differences on translation of the Group's subsidiaries in Egypt including AED 163 million foreign exchange loss on investment properties (note 12).

The attached notes 1 to 33 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2016

Attributable to the equity holders of the parent

	Share capital AED '000	Employee stock option plan shares AED '000	Statutory reserve AED '000	General reserve AED '000	Special reserve AED '000	Mudaraba Instrument AED '000	Mudaraba Instrument reserve AED '000	Cumulative changes in fair value AED '000	Foreign currency translation reserve AED '000	Accumulated losses AED '000	Total AED '000	Non-controlling interests AED '000	Total equity AED '000
At 1 January 2015	1,500,000	(93,048)	117,158	117,158	99,265	273,133	1,026,867	2,533	(106,447)	(1,237,046)	1,699,573	140,323	1,839,896
Profit for the year	-	-	-	-	-	-	-	-	-	134,851	134,851	4,248	139,099
Other comprehensive loss for the year	-	-	-	-	-	-	-	1,630	(31,278)	-	(29,648)	-	(29,648)
Total comprehensive income for the year	-	-	-	-	-	-	-	1,630	(31,278)	134,851	105,203	4,248	109,451
Transfer to statutory reserve	-	-	532	-	-	-	-	-	-	(532)	-	-	-
Transfer to general reserve	-	-	-	532	-	-	-	-	-	(532)	-	-	-
Partial payment of Mudaraba Instrument (note 26)	-	-	-	-	-	(42,005)	(157,920)	-	-	(9,389)	(209,314)	-	(209,314)
Zakat	-	-	-	-	-	-	-	-	-	(3,123)	(3,123)	-	(3,123)
Directors' fee paid (note 30)	-	-	-	-	-	-	-	-	-	(5,600)	(5,600)	-	(5,600)
At 31 December 2015	1,500,000	(93,048)	117,690	117,690	99,265	231,128	868,947	4,163	(137,725)	(1,121,371)	1,586,739	144,571	1,731,310

The attached notes 1 to 33 form part of these consolidated financial statements.

1 ACTIVITIES

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

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

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

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis.

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

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

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of Amlak Finance PJSC and its subsidiaries (the Group) as at 31 December 2016.

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

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

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

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

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

2.1 BASIS OF PREPARATION (continued)**Basis of consolidation (continued)**

If the Group loses control over a subsidiary, it:

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

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

<i>Company</i>	<i>Basis for Consolidation</i>	<i>Country of incorporation</i>	<i>Percentage shareholding</i>	
			<i>2016</i>	<i>2015</i>
Amlak Finance & Real Estate Investment (S.A.E.)	Subsidiary	Egypt	100%	100%
EFS Financial Services LLC	Subsidiary	UAE	57.5%	57.5%
Amlak Sky Gardens LLC (note 27.1)	Subsidiary	UAE	100%	100%
Amlak Holding Limited	Subsidiary	UAE	100%	100%
Waraqaa Heights LLC	Subsidiary	UAE	100%	100%
Amlak Capital LLC	Subsidiary	UAE	100%	100%
Amlak Properties Investment LLC	Subsidiary	UAE	100%	100%
Amlak Limited	Subsidiary	UAE	100%	100%
Amlak Nasr City Real Estate Investment LLC	Subsidiary	Egypt	100%	100%

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES***Issued and effective for accounting periods beginning on 1 January 2016***

Following are the amendments to IFRSs which have been applied by the Group in these consolidated financial statements. The adoption of these amendments has no significant impact on the financial performance or position of the Group. Amendments that are relevant to the Group's financial statements are set out below:

Amendments to IAS 1 – Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- ▶ The materiality requirements in IAS 1
- ▶ That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- ▶ That entities have flexibility as to the order in which they present the notes to financial statements
- ▶ That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI.

Annual Improvements – 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Annual Improvements – 2012-2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

Issued but not yet effective for accounting periods beginning on or after 1 January 2016

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below to the extent that they are relevant to the Group's financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 – Leases

IFRS 16 Leases requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied.

IAS 7 – Statement of cash flows

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments are effective for annual periods beginning on or after 1 January 2017.

Transfers of investment property – amendments to IAS 40

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

IFRS 9 – Financial instruments

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

(a) Classification and measurement

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets:

- a) amortised cost,
- b) fair value through other comprehensive income (OCI); and
- c) fair value through profit and loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IFRS 9 – Financial instruments (continued)

(b) *Impairment*

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis.

(c) *Hedging*

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Group is in the process of analyzing the impact of IFRS 9. The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations (excluding IFRS 9) are not expected to have a material impact on the consolidated financial statements of the Group as at the reporting date.

2.3 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS

Use of estimates

The preparation of the financial statements requires management to use its judgment and make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair value for the year. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts as described below:

Impairment losses on financing and investing assets

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

Collective impairment provisions on financing and investing assets

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

Valuation of unquoted equity investments

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

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

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

Impairment of associate

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

2.3 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS (continued)

Use of estimates (continued)

Provisions, contingent liabilities and commitments

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

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

Revaluation of investment properties and advances for investment properties

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

Allocation of transaction price to performance obligations in contracts with customers

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

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

Judgements

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss, or available for sale. For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular that the Group has the intention and ability to hold these to maturity. The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit or loss. All other investments are classified as available for sale.

Impairment of available-for-sale equity investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists giving due consideration to other factors, including normal volatility in share prices for quoted equities and the future cash flows and the discount factors for unquoted equities.

Impairment of non-financial assets

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

Satisfaction of performance obligations

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

2.3 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS (continued)

Judgements (continued)

Determination of transaction prices

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

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

Transfer of control in contracts with customers

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

2.4 DEFINITIONS

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

Istisna’a

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

Ijarah (Ijarah Muntahia Bittamleek)

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

Forward Ijarah (Ijara Mausoofoa Fiz Zimma)

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

Sharikatul Milk

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

Murabaha

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

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

2.4 DEFINITIONS (continued)

Sharia'a

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

Wakala Investments

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

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

Mudaraba Instrument

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

Ijarah

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

Sharikatul Milk

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

Murabaha

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

Mudaraba

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

Musharaka

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Processing fees

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

Revenue from contracts with customers

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

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

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

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

Islamic financing and investing assets

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

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

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

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

Rental income

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Islamic financing and investing assets (continued)

Dividend

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

Income on deposits

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

Allocation of profit

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

Cash and cash equivalents

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

Islamic financing and investing assets

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Islamic financing and investing assets (continued)

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

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

Investment properties and advances for investment properties

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

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

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

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

Properties under development

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

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

Held for trading securities

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

Available-for-sale

After initial recognition, investments classified as “available for sale,” are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. Upon impairment any losses, or upon derecognition any gain or loss, previously reported as “cumulative changes in fair value” within equity are included in the statement of income for the year.

Investment in associates and joint operations

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

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

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

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

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

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

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

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

Furniture, fixtures and office equipment

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture, fixtures and office equipment (continued)

During the year, the Group has changed the estimated useful life of computer equipment from 3 year to 5 years. If the estimates have not been changed, the current depreciation will be increased by AED 2.6 million.

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

The carrying values of furniture, fixtures and office equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace furniture, fixtures and office equipment is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Zakat

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

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

Accounts payable and accruals

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

Provisions

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

Leases

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

Employees' end of service benefits

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

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

Employees' benefit plan shares

Employees' benefit plan shares consist of the Group's own shares that have been designated under the Employee Stock Ownership Plan and not yet reissued or cancelled. These shares are accounted for using the weighted average cost method. Under the cost method, the average cost of the shares is shown as a deduction from total shareholders' equity.

Trade and settlement date accounting

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

a) Financial assets

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

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, financing and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement

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

- Financial assets at fair value through profit or loss
- Financing and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of income.

Financing and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EPR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included as finance income in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

a) Financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the consolidated statement of income in finance costs. Profit earned whilst holding available-for-sale financial investments is reported as income using the EPR method.

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EPR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EPR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Derecognition

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

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

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

Impairment and uncollectibility of financial assets

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

b) Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of financing, net of directly attributable transaction costs.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group's financial liabilities at fair value through profit or loss are comprised of its finance rate derivative bifurcated from its term finance agreement.

Financing

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

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

Financial guarantee contracts

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

Derecognition

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

c) Offsetting of financial instruments

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

Offsetting

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Foreign currencies**

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

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

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

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

Segment reporting

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

Contingencies

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

4 INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
<i>Financing assets:</i>		
Ijarah	182,749	280,346
Forward Ijarah	3,921	4,436
Shirkatul Milk	11,812	4,107
Others	480	593
	<u>198,962</u>	<u>289,482</u>
<i>Investing assets:</i>		
Wakala	1,531	1,274
	<u>200,493</u>	<u>290,756</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

5 OPERATING EXPENSES

	2016 AED'000	2015 AED'000
Personnel	58,727	63,430
Legal consultancy and professional	27,448	24,894
Business process	14,905	13,298
Property management (note 12)	18,260	15,008
Rent	4,100	4,118
IT related expense	4,986	6,939
Depreciation	5,395	6,133
Litigation claims	100	11,310
Others	14,810	12,886
	<u>148,731</u>	<u>158,016</u>
Share of operating expenses from Al Warqa Gardens LLC (note13)	22,747	8,644
	<u>171,478</u>	<u>166,660</u>

6 DISTRIBUTION TO FINANCIERS / INVESTORS

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

7 BASIC AND DILUTED PROFIT PER SHARE

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

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

	2016	2015
Profit for the year attributable to equity holders of the parent net of Directors' fee and zakat (AED'000)	<u>105,283</u>	<u>126,128</u>
Weighted average number of shares for basic EPS (in thousands)	1,475,000	1,475,000
Effect of dilution: Mudaraba Instrument (note 26)	<u>1,647,225</u>	<u>1,835,874</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>3,122,225</u>	<u>3,310,874</u>
Attributable to equity holders of the parent:		
Basic profit per share (AED)	<u>0.071</u>	<u>0.086</u>
Diluted profit per share (AED)	<u>0.034</u>	<u>0.038</u>

The basic and diluted weighted average numbers of shares were reduced by the purchase of own shares for the proposed employee stock option plan during the year 2008 (note 22).

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

8 CASH AND BALANCES WITH BANKS

	2016 AED'000	2015 AED'000
Cash on hand	59	101
Balances with banks	341,470	495,137
Deposits with banks	278,973	111,202
Cash and balances with banks	620,502	606,440
Less: Deposits maturing after one year		
Regulatory deposit with no maturity (note 8.1)	(35,000)	(35,000)
Restricted cash (note 8.2)	(247,301)	(68,328)
Cash and cash equivalents	338,201	503,112

8.1 Deposits maturing after one year represent AED 35 million (2015: AED 35 million) deposited with a local bank under lien to the Central Bank of UAE in accordance with Central Bank regulations for licensing.

8.2 At year end, the Group reported AED 247 million (2015: AED 68 million) of restricted cash. This represents the Group's share of the cash held and controlled by a joint venture (note 13).

8.3 With effect from the date of restructuring, the Company and certain of its subsidiaries registered in UAE have pledged their bank accounts in favour of the security agent (note 17).

9 ISLAMIC FINANCING AND INVESTING ASSETS

	2016 AED'000	2015 AED'000
<i>Financing assets:</i>		
Ijarah assets	2,797,359	3,356,857
Forward Ijarah	388,743	420,074
Shirkatul Milk	125,852	146,107
Real estate Murabaha	2,543	7,268
Others	18,104	18,344
	3,332,601	3,948,650
Allowance for impairment (note 9.1)	(512,890)	(488,937)
Total financing assets	2,819,711	3,459,713
<i>Investing assets:</i>		
Wakala	400,000	-
Total investing assets	400,000	-
	3,219,711	3,459,713

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

	2016 AED'000	2015 AED'000
Within U.A.E.	2,777,096	3,384,899
Outside U.A.E.	42,615	74,814
	2,819,711	3,459,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

9 ISLAMIC FINANCING AND INVESTING ASSETS (continued)

The movement in the allowance for impairment is as follows:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
At 1 January	488,937	662,301
Movement during the year - net	23,953	(173,364)
At 31 December	<u>512,890</u>	<u>488,937</u>

9.1 Allowance for impairment includes AED 131.23 million (2015: AED 115.32 million) in respect of profit in suspense for impaired financing and investing assets.

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

10 AVAILABLE-FOR-SALE INVESTMENTS

	<i>UAE</i>		<i>International</i>		<i>Total</i>	
	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Equities and Funds	-	17,400	7,688	8,129	7,688	25,529

31 December 2016

	<i>Investments carried at fair value</i>			
	<i>Total</i> <i>AED'000</i>	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>
Equities	7,688	-	-	7,688
Funds	-	-	-	-
	<u>7,688</u>	<u>-</u>	<u>-</u>	<u>7,688</u>

31 December 2015

	<i>Investments carried at fair value</i>			
	<i>Total</i> <i>AED'000</i>	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>
Equities	8,129	-	-	8,129
Funds	17,400	-	17,400	-
	<u>25,529</u>	<u>-</u>	<u>17,400</u>	<u>8,129</u>

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

10 AVAILABLE-FOR-SALE INVESTMENTS (continued)

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

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Balance at 1 January	8,129	8,945
Net change in fair values	(400)	(770)
Addition during the year	570	-
Exchange difference	(611)	(46)
Balance at 31 December	<u>7,688</u>	<u>8,129</u>

The level 3 fair value above is determined based on the net asset value of the underlying entity and consequently no sensitivity analysis to variation in assumptions is provided.

11 ADVANCES FOR INVESTMENT PROPERTIES

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
At 1 January	322,818	312,036
Fair value gain on advances for investment properties	-	10,782
At 31 December	<u>322,818</u>	<u>322,818</u>

This represents the advances paid by the Group towards the acquisition of units in two under-development real estate projects in Dubai. Both projects are delayed by a number of years and the date of completion is uncertain. The Group has commenced arbitration to facilitate recovery of advances with a carrying value of AED 323 million (31 December 2015: 323 million), the outcome of which management believes will have no negative impact on the carrying value of advances for investment properties at year end. The Group has not yet obtained title to the properties and is committed to pay an additional AED 23 million (31 December 2015: AED 23 million) in accordance with the agreement with the seller of one of the real estate projects.

These advances are carried at fair value. At 31 December 2016, the fair values of the advances for investment properties are based on valuations performed at year end by independent professionally qualified valuer who hold a recognised relevant professional qualification and have relevant experience in the locations and segments of the properties valued. The valuation model used is in accordance with that recommended by the Royal Institute of Chartered Surveyors.

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

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

Advances for investment properties include AED 30 million under Istisna with a financial institution carried at cost as there is significant uncertainty over whether the project will be completed by the developer. The associated liability of AED 39 million (31 December 2015: AED 39 million) is also recorded in the financial statements. Under the terms of the Istisna, the Group has no obligation to repay the Istisna finance of the asset until construction is completed.

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12 INVESTMENT PROPERTIES

	2016 AED'000	2015 AED'000
At 1 January	1,701,920	1,489,968
Additions during the year	73,299	183,007
Disposal during the year	(7,571)	-
Fair value gain on investment properties	18,070	55,805
Foreign exchange fluctuation	(162,622)	(26,860)
At 31 December	<u>1,623,096</u>	<u>1,701,920</u>

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

The fair values of the properties are based on valuations performed at year end by independent professionally qualified valuers who hold a recognised relevant professional qualification and have relevant experience in the locations and segments of the investment properties valued. The valuation model used is in accordance with that recommended by the Royal Institute of Chartered Surveyors.

Investment properties as at 31 December 2016 include a plot of land and two residential units in Egypt owned by the Group's subsidiaries amounting to AED 148 million (2015: AED 275 million). All other investment properties are located within the UAE. The carrying values also include foreign exchange loss amounting to AED 163 million (2015: AED 27 million) on currency translation of investment properties in Egypt which is included in equity.

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

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

As at 31 December 2016, investment properties having fair value of AED 872 million (2015: AED 850 million) are mortgaged / assigned in favour of the security agent as part of the restructuring (note 17).

	2016 AED'000	2015 AED'000
Rental income derived from investment properties	56,602	46,185
Direct operating expenses (including repairs and maintenance) generating rental income	(18,260)	(15,008)
Profit arising from rental on investment properties carried at fair value	<u>38,342</u>	<u>31,177</u>

13 PROPERTIES UNDER DEVELOPMENT

	2016 AED'000	2015 AED'000
At 1 January	386,418	363,281
Cost of sale of real estate	(196,117)	(33,447)
Additions for construction costs incurred	30,378	56,584
At 31 December	<u>220,679</u>	<u>386,418</u>

13 PROPERTIES UNDER DEVELOPMENT (continued)

On 1 October 2014, the Group entered into a joint venture agreement with another party to develop a jointly owned plot of land in Nad Al Hammar. Amlak Finance PJSC acquired a 50% interest in Al Warqa Gardens LLC, a jointly controlled entity to develop a jointly owned plot of land in Nad Al Hammar. The Group has a 50% share in the assets, liabilities, revenue and expenses of the joint venture and accordingly under IFRS 11 it is deemed to be a jointly controlled operation. As the land is under development with a view to disposal in the market, it has been treated as property under development with an initial cost equal to its fair value at the time of transfer from investment property portfolio for AED 330 million. Subsequent expenditure to develop the land for resale is included in the cost of property. The cash held by the joint venture is restricted, given that it is contractually committed to the development of the land under the joint venture agreement. The Group's share of this restricted cash balance at 31 December 2016 is AED 247 million (2015: AED 68 million)

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

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

As at 31 December 2016, properties under development are assigned as security in favour of the security agent as part of the restructuring (note 17).

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

	<i>31 December 2016 AED'000</i>	<i>31 December 2015 AED'000</i>
Properties under development	220,679	386,418
Cash and balances with banks	247,301	68,328
Other assets - receivables	110,870	65
Deferred income and other liabilities	(2,713)	(92,010)
Net Assets	576,137	362,801
Revenue	428,826	74,078
Income on deposits	3,374	469
Cost of sale of real estate	(196,117)	(33,447)
Operating expenses	(22,747)	(8,644)
Profit for the year	213,336	32,456

Revenue for the year comprises AED 366 million (31 December 2015: AED nil) following satisfaction of transfer of control of land performance obligations and AED 63 million (31 December 2015: AED 74 million) against ongoing satisfaction of infrastructure development performance obligations. Receivable amounts due under the respective sale agreements on which land transfer revenue has been recognised are due for settlement to the joint venture within 12 months of the reporting date.

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14 INVESTMENT IN AN ASSOCIATE

	<i>Percentage holding</i>		<i>2016</i>	<i>2015</i>
	<i>2016</i>	<i>2015</i>	<i>AED '000</i>	<i>AED '000</i>
Amlak International for Real Estate Finance Company, Saudi Arabia (AIRE)	26.39%	26.39%	293,540	282,096
			<u>293,540</u>	<u>282,096</u>

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

	<i>2016</i>	<i>2015</i>
	<i>AED '000</i>	<i>AED '000</i>
Assets	3,275,971	2,862,614
Liabilities	(2,172,249)	(1,802,027)
Equity	<u>1,103,722</u>	<u>1,060,587</u>
Group's carrying amount of the investment (extrapolated)	<u>293,540</u>	<u>282,096</u>
Revenue (extrapolated)	<u>253,290</u>	<u>202,773</u>
Profit for the year (extrapolated)	<u>103,129</u>	<u>100,389</u>
Group's share of profit for the year (extrapolated)	<u>27,905</u>	<u>25,202</u>

During the year, the Group received dividend of AED 16.5 million (2015: AED 10.9 million) from AIRE. Financial information and results of AIRE are based on the latest available management accounts as at November 2016 (31 December 2015: as at 30 November 2015) and extrapolated for the remaining one month (2015: one month) to 31 December 2016.

15 OTHER ASSETS

	<i>2016</i>	<i>2015</i>
	<i>AED '000</i>	<i>AED '000</i>
Prepayments	4,676	3,765
Receivable from brokerage activities (note 15.1)	24,369	24,369
Land registration and service fees	7,347	21,778
Advances	7,228	7,093
Receivable from developers	-	13,285
Profit receivable	2,680	1,600
Due from related parties (note 29)	774	703
Foreclosed accounts receivables	-	10,585
Others (note 15.2)	115,276	5,795
	<u>162,350</u>	<u>88,973</u>

15.1 This balance is stated net of provision for doubtful debt and is past due by more than 12 months on the reporting date. Management is confident of a full recovery of the net balance.

15.2 Balance includes AED 111 million (2015: AED 0.1 million) pertaining to receivables of Al Warqa Gardens LLC (note 13).

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16 FURNITURE, FIXTURES AND OFFICE EQUIPMENT

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>
Furniture, fixtures and office equipment (note 16.1)	17,225	14,168
Capital work in progress (note 16.2)	5,059	-
	<u>22,284</u>	<u>14,168</u>

16.1 Furniture, fixtures and office equipment are as follows:

2016:

	<i>Furniture and fixtures AED'000</i>	<i>Computers and office equipment AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2016	19,093	43,280	62,373
Additions during the year	1,168	7,455	8,623
Disposals during the year	(4,286)	(1,649)	(5,935)
At 31 December 2016	<u>15,975</u>	<u>49,086</u>	<u>65,061</u>
Accumulated depreciation:			
At 1 January 2016	17,839	30,366	48,205
Depreciation charge for the year	291	5,105	5,396
Disposals during the year	(4,122)	(1,643)	(5,765)
At 31 December 2016	<u>14,008</u>	<u>33,828</u>	<u>47,836</u>
Net book value:			
At 31 December 2016	<u>1,967</u>	<u>15,258</u>	<u>17,225</u>

2015:

	<i>Furniture and fixtures AED'000</i>	<i>Computers and office equipment AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2015	20,332	30,803	51,135
Additions during the year	1,089	12,749	13,838
Disposals during the year	(2,328)	(272)	(2,600)
At 31 December 2015	<u>19,093</u>	<u>43,280</u>	<u>62,373</u>
Accumulated depreciation:			
At 1 January 2015	19,379	24,991	44,370
Depreciation charge for the year	497	5,636	6,133
Disposals during the year	(2,037)	(261)	(2,298)
At 31 December 2015	<u>17,839</u>	<u>30,366</u>	<u>48,205</u>
Net book value:			
At 31 December 2015	<u>1,254</u>	<u>12,914</u>	<u>14,168</u>

16.2 The amount relates to ongoing IT projects.

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17 INVESTMENT DEPOSITS AND OTHER ISLAMIC FINANCING

	<i>Frequency of instalments</i>	<i>Final instalment date</i>	<i>Profit rate</i>	<i>2016 AED'000</i>	<i>2015 AED'000</i>
Murabaha	Monthly	25 October 2026	2%	229,296	238,124
Wakala	Monthly	4 July 2020	4%	199,695	228,222
Others	Monthly	4 July 2020	4%	457,722	523,111
Purchase price payable	Monthly	25 October 2026	2%	4,439,015	4,609,909
				5,325,728	5,599,366
Amortised fair value adjustment (note 17.1)				(643,704)	(754,134)
				4,682,024	4,845,232

Investment deposits and other Islamic financing are secured against assignment and mortgage over the Group's investment properties located in UAE (notes 11 and 12), assignment of insurance, pledge over bank accounts (note 8), assignment of rights to receive payments in connection with the Islamic financing and investing assets portfolio and corporate guarantees of the Group's subsidiaries. Securities offered would be held by a security agent on behalf of financiers.

17.1 Amortised fair value adjustment

	<i>2016 AED'000</i>	<i>2015 AED'000</i>
At 1 January	754,134	886,318
Amortisation charged for the year	(110,430)	(132,184)
	643,704	754,134

The nature of the Company's deposits was significantly changed due to the restructuring undertaken in 2014, resulting in a fixed obligation to be paid to the Commercial Financiers and Liquidity Support Providers. The face value of the outstanding restructured fixed obligations at year end is AED 5,326 million (31 December 2015: 5,599 million). In accordance with IFRS, due to the substantial changes in the terms of the investment deposits through the restructuring, a fair valuation assessment of the restructured obligations was performed at the date of the restructuring based on the net present value of the contracted cash flows. As at 25 November 2014, the restructured obligations were initially recognised at fair value in the statement of financial position giving rise to AED 911 million of fair value gain which was recorded in the consolidated statement of income of the year ended 31 December 2014.

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

The obligations are subsequently to be measured at amortised cost using the effective finance rate method. Consequently, the gain on initial recognition recorded will fully reverse out over the repayment period of 12 years, with a resulting charge to the consolidated statement of income each year. The cumulative value of fair value gain amortised as at 31 December 2016 was AED 267 million (31 December 2015: AED 157 million) giving a residual fair value gain of AED 644 million as at 31 December 2016 (31 December 2015: AED 754 million) to be amortised over the remaining repayment period.

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

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17 INVESTMENT DEPOSITS AND OTHER ISLAMIC FINANCING (continued)

17.1 Amortised fair value adjustment (continued)

Under the cash sweep mechanism the second assessment was performed based on the cash position as at 30 June 2015 and consequently an advance payment of AED 558 million representing 13 future scheduled monthly installments till October 2017 was paid on 16 July 2015.

The third assessment was performed based on the cash position as at 31 December 2015 and consequently an advance payment of AED 137 million representing 2 future scheduled monthly installments till December 2017 was paid on 25 January 2016. The fourth assessment was performed based on the cash position as at 30 June 2016 and consequently an advance payment of AED 137 million representing 2 future scheduled monthly installments till February 2018 was paid on 25 July 2016.

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

18 TERM ISLAMIC FINANCING

	2016 AED'000	2015 AED'000
Istisna – Forward Ijarah financing by subsidiary (note A)	38,559	38,559
Egyptian Mortgage Refinance Company (note B)	19,145	31,240
	<u>57,704</u>	<u>69,799</u>

A) Istisna– Forward Ijarah financing by subsidiary

During 2008, the Group entered into an Istisna – Forward Ijarah arrangement with an Islamic bank to finance the purchase of office condominium units in a property which is currently being constructed. The total amount under the facility is AED 53 million (31 December 2015: AED 53 million) of which total payments made towards the construction cost by the Islamic bank as of 31 December 2016 are AED 30 million (31 December 2015: AED 30 million).

Subsequent to completion and delivery, it will eventually be converted into an Ijarah facility upon the handover of the office condominium units to the Group. The Group is currently under discussion with the Islamic Bank to amend the ultimate terms of the contract.

Under the Ijarah, variable rental shall be paid by the Group calculated at a rate of 3 months EIBOR + 2.5% per annum (minimum 6.5% per annum) and is payable in quarterly rental instalments over 6 years after the handover of the completed property. Upon completion of the lease term the property may be sold / transferred to the Group.

This facility is secured among others by: (a) a tripartite mortgage agreement among the developer of the property, the bank and the subsidiary; (b) assignment of insurance over financed property; and (c) assignment of future rental income from the financed property.

B) Egyptian Mortgage Refinance Company (EMRC)

As at the year end, EMRC long term facilities to the Group's subsidiary in Egypt amounted to Egyptian Pounds 99 million (2015: Egyptian Pounds 67 million) to finance the subsidiary's activities. These facilities carry a profit rate range from 11.5% to 14.75% per annum (2015: 11.5% per annum) payable on a monthly basis over a maximum period of 10 years.

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19 EMPLOYEES' END OF SERVICE BENEFITS

	2016 AED'000	2015 AED'000
At 1 January	6,292	6,085
Provided during the year	1,287	1,192
Paid during the year	(1,422)	(985)
At 31 December	6,157	6,292

20 OTHER LIABILITIES

	2016 AED'000	2015 AED'000
Provisions and accruals	56,631	50,354
Unearned rental income	13,685	13,025
Dividend payable	6,582	6,592
Anticipated profits payable on investment deposits and other Islamic financing	3,912	4,281
Litigation claims payable	15,103	22,093
Brokerage payable	2,344	2,344
Zakat payable	633	3,129
Other payables (note 20.1)	36,201	133,624
	135,091	235,442

20.1 This includes AED 3 million (31 December 2015: AED 92 million) pertaining to deferred income and other liabilities of Al Warqa Gardens LLC (note 13).

21 SHARE CAPITAL

	2016 AED'000	2015 AED'000
<i>Authorised, Issued and fully paid</i>		
1,500,000,000 shares of AED 1 each		
(31 December 2015: 1,500,000,000 ordinary shares of AED 1 each)	1,500,000	1,500,000

Mudaraba Instrument

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

22 EMPLOYEE STOCK OPTION PLAN SHARES

During 2008, the Group purchased 25 million of its shares, equivalent to 1.67% of the issued shares. These shares are recorded in the statement of financial position at cost as employee stock option plan shares within equity, as the Group is planning to introduce such a plan in the future.

23 STATUTORY RESERVE

As required by the UAE Federal Law No. (2) of 2015 and the Company's Articles of Association, 10% of the Company's profit for the year is to be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. During the year, the Company transferred AED nil (31 December 2015: AED 532 thousand) to statutory reserves.

24 GENERAL RESERVE

As required by the Company's Articles of Association, 10% of the profit for the year is to be transferred to general reserve. As per the Articles of Association, deductions for the general reserve shall stop by resolution of an Ordinary General Assembly upon the recommendation of the Board of Directors or when this reserve reaches 50% of the paid up capital of the Company. This reserve shall be utilised for the purpose determined by the General Assembly at an ordinary meeting upon the recommendation of the Board of Directors. During the year, the Company transferred AED nil (31 December 2015: AED 532 thousand) to general reserves.

25 SPECIAL RESERVE

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

26 MUDARABA INSTRUMENT

	2016 AED'000	2015 AED'000
Mudaraba Instrument (nominal value)	1,100,075	1,100,075
Mudaraba Instrument Reserve	(868,947)	(868,947)
Mudaraba Instrument (carrying value)	<u>231,128</u>	<u>231,128</u>

On 25 November 2014, a Mudaraba Instrument of AED 1,300 million with a maturity in November 2026 was issued through a special purpose vehicle owned by the Group. On maturity Mudaraba Instrument to the extent it is not redeemed will mandatorily convert into upto 1,956 million ordinary shares of the Company with face value of AED 1 each.

The Mudaraba Instrument at the time of issue comprised:

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

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

At the Company's discretion, realised gains on the sale of qualifying investment properties (note 12), advance for investment properties (note 11) and properties under development (note 13) will be used to redeem the Mudaraba Instrument along with the relevant payable amount of PIK. As the Mudaraba Instrument is redeemed, there will be a proportionate reduction in the contingent share issuance due. In the event that a sale on a qualifying investment property is completed, but there is no corresponding redemption of Mudaraba Instrument, the expected profit will be subject to change as explained above. The qualifying investment property has an aggregate carrying value of AED 1,532 million as at 31 December 2016 (31 December 2015: AED 1,804 million), for which the aggregate trigger fair value for qualifying property disposal is AED 2,715 million (31 December 2015: AED 2,849 million).

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

26 MUDARABA INSTRUMENT (continued)

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

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

On 12 August 2015, the Board of Directors of the Company voluntarily opted to repay AED 200 million against the Mudaraba Instrument which has reduced the Mudaraba Instrument and Mudaraba Instrument reserve by AED 42 million and 158 million respectively. The nominal amount of Mudaraba instrument outstanding at 31 December 2016 is AED 1,100 million (31 December 2015: AED 1,100 million). The Company also paid AED 9 million in respect of PIK charge falling due as a consequence of the repayment of the Mudaraba Instrument with the amount being 1% of the outstanding Mudaraba Instrument from the date of restructuring to the date of payment of the AED 200 million. This charge was recorded in accumulated losses in equity.

At 31 December 2016, the maximum number of shares which may convert under the instrument are 1,647 million (31 December 2015: 1,647 million).

27 MATERIAL PARTLY-OWNED SUBSIDIARIES

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

Accumulated balances of material non-controlling interest:

	<i>Note</i>	2016 <i>AED'000</i>	2015 <i>AED'000</i>
Amlak Sky Gardens LLC	27.1	131,506	156,421
EFS Financial Services LLC		(12,370)	(11,850)
		<u>119,136</u>	<u>144,571</u>

Profit / (loss) allocated to material non-controlling interest:

	<i>Note</i>	2016 <i>AED'000</i>	2015 <i>AED'000</i>
	27.1		
Amlak Sky Gardens LLC		127	2,892
EFS Financial Services LLC		(520)	1,356
		<u>(393)</u>	<u>4,248</u>

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

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27 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

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

Summarized statement of income

2016:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Revenue	20,439	154
General and administrative expenses	(5,434)	(442)
Distribution to financiers / Investors	-	(937)
Fair value loss on investment property	(14,620)	-
Total comprehensive income for the year	385	(1,225)
Attributable to non-controlling interests	127	(520)

2015:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Revenue	19,795	4,924
General and administrative expenses	(4,822)	(799)
Distribution to financiers / Investors	-	(935)
Fair value loss on investment property	(6,210)	-
Total comprehensive income for the year	8,763	3,190
Attributable to non-controlling interests	2,892	1,356

Summarized statement of financial position

2016:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Cash and bank balances	39,873	911
Advances for investment properties	-	30,036
Investment properties	367,150	-
Other assets	1,467	24,395
Term Islamic financing	-	(38,559)
Due to related party	-	(45,501)
Other liabilities	(10,483)	(391)
Total equity	398,007	(29,109)
Attributable to:		
Equity holders of the parent	266,501	(16,739)
Non-controlling interests	131,506	(12,370)
	398,007	(29,109)

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27 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of financial position (continued)

2015:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Cash and bank balances	46,887	1,398
Advances for investment properties	-	30,036
Investment properties	381,770	-
Other assets	112	24,374
Term Islamic financing	-	(38,559)
Due to related party	-	(44,564)
Other liabilities	(9,548)	(568)
Total equity	419,221	(27,883)
Attributable to:		
Equity holders of the parent	262,800	(16,033)
Non-controlling interests	156,421	(11,850)
	419,221	(27,883)

Summarized statement of cash flows

2016:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Operating	14,585	(487)
Financing	(21,599)	-
Net decrease in cash and cash equivalents	(7,014)	(487)

2015:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Operating	15,152	4,374
Financing	(8,060)	(3,285)
Net increase in cash and cash equivalents	7,092	1,089

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28 SEGMENTAL INFORMATION

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

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

Operating segments:

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

2016:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investment & Others AED'000</i>	<i>Total AED'000</i>
Operating income	233,190	505,390	11,707	750,287
Distribution to financiers / investors	(62,763)	(51,338)	(13,291)	(127,392)
Reversal / (allowances) for impairment	(63,656)	(1,135)	(937)	(65,728)
Amortisation of fair value gain	(55,893)	(44,860)	(9,677)	(110,430)
Expenses (including allocated expenses)	(96,975)	(59,949)	(14,554)	(171,478)
Cost of sale of real estate	-	(196,117)	-	(196,117)
Share of results of an associate	-	-	27,905	27,905
Segment results	<u>(46,097)</u>	<u>151,991</u>	<u>1,153</u>	<u>107,047</u>
Non-controlling interests				<u>393</u>
				<u>107,440</u>

2015:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investment & Others AED'000</i>	<i>Total AED'000</i>
Operating income	304,575	189,629	12,686	506,890
Distribution to financiers / investors	(76,784)	(50,395)	(14,065)	(141,244)
Reversal / (allowances) for impairment	81,057	573	(1,088)	80,542
Amortisation of fair value gain	(73,283)	(48,098)	(10,803)	(132,184)
Expenses (including allocated expenses)	(98,431)	(53,900)	(14,329)	(166,660)
Cost of sale of real estate	-	(33,447)	-	(33,447)
Share of results of an associate	-	-	25,202	25,202
Segment results	<u>137,134</u>	<u>4,362</u>	<u>(2,397)</u>	<u>139,099</u>
Non-controlling interests				<u>(4,248)</u>
				<u>134,851</u>

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28 SEGMENTAL INFORMATION (continued)

Segment assets and liabilities:

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

2016:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investment & Others AED'000</i>	<i>Total AED'000</i>
Segment assets	4,098,044	1,989,222	405,402	6,492,668
Segment liabilities	1,719,261	2,739,954	421,761	4,880,976
Depreciation	5,203	-	193	5,396
Capital expenditure	13,682	-	-	13,682

2015:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investment & Others AED'000</i>	<i>Total AED'000</i>
Segment assets	4,460,152	1,697,743	730,180	6,888,075
Segment liabilities	1,771,339	2,662,138	723,288	5,156,765
Depreciation	5,866	-	267	6,133
Capital expenditure	6,679	-	-	6,679

Following satisfaction of the relevant local regulatory requirements, during the year, land in Egypt with a carrying value of AED 147 million and associated liabilities of AED 113 million was reclassified from Corporate Finance Investment to Real Estate Investment (31 December 2015: AED 272 million and AED 262 million respectively). During the year segment liabilities are reclassified from Real Estate Finance to Real Estate Investment with corresponding reclassification of distribution to depositors and other expenses between the segments

29 RELATED PARTY TRANSACTIONS

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

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

31 December 2016:

	<i>Associated companies AED'000</i>	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Cash and balances with banks	-	-	-	14,957	14,957
Islamic financing and investing assets	-	-	17,869	13,301	31,170
Available for sale investments	-	-	-	7,249	7,249
Investment deposits	-	130,221	-	1,042,085	1,172,306
Other assets (note 15)	71	-	-	703	774
Other liabilities	-	51	-	860	911

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29 RELATED PARTY TRANSACTIONS (continued)

31 December 2015:

	<i>Associated companies AED'000</i>	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Cash and balances with banks	-	-	-	10,103	10,103
Islamic financing and investing assets	-	-	19,078	15,626	34,704
Available for sale investments	-	-	-	7,649	7,649
Investment deposits	-	135,234	-	1,082,203	1,217,437
Other assets (note 15)	-	-	-	703	703
Other liabilities	-	53	-	2,343	2,396

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

31 December 2016:

	<i>Associated companies AED'000</i>	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Income from Islamic financing and investing assets	-	-	621	728	1,349
Distributions to financiers / investors	-	2,680	-	21,445	24,125

31 December 2015:

	<i>Associated companies AED'000</i>	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Income from Islamic financing and investing assets	-	-	625	930	1,555
Distributions to financiers / investors	-	2,821	-	22,586	25,407

Compensation of key management personnel

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

	<i>2016 AED'000</i>	<i>2015 AED'000</i>
Salaries and other benefits	18,786	17,550
Employee terminal benefits	2,206	1,955
	<u>20,992</u>	<u>19,505</u>

Directors' remuneration during the year ended 31 December 2016 has been disclosed in note 30.

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As at 31 December 2016

30 COMMITMENTS AND CONTINGENCIES*Commitments*

	Notes	2016 AED'000	2015 AED'000
Irrevocable commitments to advance financing	30.1	246,722	256,762
Commitments for advances for investment properties	30.2	23,251	23,251
Commitments for investment properties	30.3	67,923	-
Commitments against capital expenditure	30.4	5,350	5,567
Commitments against properties under development	30.5	14,255	33,672
		<u>357,501</u>	<u>319,252</u>

- 30.1 Credit-related commitments include commitments to extend facilities designed to meet the requirements of the Group's customers. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.
- 30.2 This represents commitments to property developers or sellers in respect of property purchases.
- 30.3 This represents commitments to property developers in respect of development of investment property.
- 30.4 This represents commitment towards implementation of IT projects.
- 30.5 Estimated capital expenditure pertaining to properties under development contracted but not provided for.

Contingencies

- a) The Group is engaged in certain litigation proceedings in the United Arab Emirates, involving claims by and against it, mainly in respect of certain sale and financing transactions. The Group is defending these cases and, based on legal counsel advice received, believes it is less than probable that such actions taken by counter parties would succeed, except for cases against which a provision of AED 4 million has been made.
- b) As at 31 December 2016 the Group has a contingent liability for proposed Directors' remuneration of AED 3.5 million (31 December 2015: AED 7.86 million of which AED 2.25 million was approved in AGM on 26 April 2016 and paid to the Directors). Directors' remuneration is governed by UAE Federal Law No (2) of 2015, and is subject to approval at the Annual General Meeting (AGM).

31 RISK MANAGEMENT

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

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

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

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

31 RISK MANAGEMENT (continued)

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

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

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

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

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

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

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

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

Excessive risk concentration

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

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

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

31 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, policies and procedures. For details of composition of Islamic financing assets refer note 9.

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

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

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

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

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

	<i>Gross maximum exposure 2016 AED'000</i>	<i>Gross maximum exposure 2015 AED'000</i>
Balances with banks (note 8)	620,443	606,339
Islamic financing and investing assets (note 9)	3,219,711	3,459,713
Advances for investment properties (note 11)	322,818	322,818
Other assets (excluding prepayment) (note 15)	157,674	85,208
Total credit risk exposure	<u>4,320,646</u>	<u>4,474,078</u>

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

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

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31 RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2016

	Neither impaired nor past due on reporting date			Past due but not impaired on reporting date				individually impaired on reporting date	
	Carrying amount AED'000	Low/fair risk AED'000	Watch list AED'000	Re-negotiated terms AED'000	<30 AED'000	30-60 AED'000	61-90 days AED'000	>90 days AED'000	Gross amount AED'000
Balances with banks	620,443	620,443	-	-	-	-	-	-	-
Islamic financing and investing assets	3,219,711	1,836,345	94,819	83,242	410,297	201,471	108,116	188,140	553,241
Advances for investment properties	322,818	-	292,782	-	-	-	-	-	38,618
Other assets (excluding prepayments)	157,674	125,958	7,347	-	-	-	-	-	66,500
	<u>4,320,646</u>	<u>2,582,746</u>	<u>394,948</u>	<u>83,242</u>	<u>410,297</u>	<u>201,471</u>	<u>108,116</u>	<u>188,140</u>	<u>658,359</u>

* In addition to the specific provision as above, the Group has also made a collective provision of AED 126.12 million (31 December 2015: AED 126.12 million) on Islamic financing and investing assets and provision for on hold projects amounting to AED 130.81 million (31 December 2015: AED 134.20 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Credit risk (continued)

	<i>Neither impaired nor past due on reporting date</i>	<i>Past due but not impaired on reporting date</i>	<i>Individually impaired on reporting date</i>
Assets	\$1,678,900	\$1,000,000	\$1,000,000
Liabilities	\$1,678,900	\$1,000,000	\$1,000,000
Total	\$1,678,900	\$1,000,000	\$1,000,000

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31 RISK MANAGEMENT (continued)**Collateral and other credit enhancements**

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

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

Market risk

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

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

Currency risk

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

	% Change in currency rate in AED	2016		% Change in currency rate in AED	2015	
		Effect on profit AED '000	Effect on Equity AED'000		Effect on Profit AED '000	Effect on Equity AED '000
Currency						
Egyptian Pound (LEY)	± 5%	±1,483	± 6,829	± 5%	±312	± 16,745
Egyptian Pound (LEY)	± 30%	±8,899	±40,975	± 30%	±1,873	± 100,473

Profit rate risk

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

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

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

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the results for one year, based on profit bearing financial assets and financial liabilities held at 31 December 2016.

	2016 AED '000	2015 AED '000
Effect of a ± 50 bps change in EIBOR	〒 16,603	〒 19,154
Effect of a ± 100 bps change in EIBOR	〒 33,206	〒 38,309

31 RISK MANAGEMENT (continued)

Equity price risk

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

Early settlement risk

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

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

Liquidity risk

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

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31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2016

	Expected Profit rate %	Up to 1 year			Total up to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Items with no maturity AED'000	Total AED'000
		Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000					
Investment deposits and other Islamic financing	2% - 4%	29,916	30,581	60,829	121,326	3,650,223	2,144,138	-	5,915,687
Term Islamic financing	6.5% - 14.5%	1,263	1,242	2,444	4,949	57,261	2,226	-	64,436
		31,179	31,823	63,273	126,275	3,707,484	2,146,364	-	5,980,123
OFF BALANCE SHEET ITEMS Commitments		253,595	37,808	25,334	316,737	40,764	-	-	357,501

At 31 December 2015

	Expected Profit rate %	Up to 1 year			Total up to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Items with no maturity AED'000	Total AED'000
		Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000					
Investment deposits and other Islamic financing	2% - 4%	168,426	31,520	62,697	262,643	2,727,991	3,328,869	-	6,319,503
Term Islamic financing	6.5% - 11.5%	2,089	2,055	4,041	8,185	69,381	2,817	-	80,383
		170,515	33,575	66,738	270,828	2,797,372	3,331,686	-	6,399,886
OFF BALANCE SHEET ITEMS Commitments		235,247	1,637	6,566	243,450	75,802	-	-	319,252

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31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Maturity analysis of assets and liabilities

The maturity analysis of assets, liabilities and off balance sheet items analysed according to when they are expected to be recovered, settled or sold. The values presented in this table include the impact of fair value adjustment as per the statement of financial position and excludes profit not yet due at year end. The table also excludes the potential impact of any cash distribution requirements triggered by the cash sweep mechanism under the terms of the Common Terms Agreement as explained in note 17.

At 31 December 2016

	Up to 1 year					Total up to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Items with no maturity AED '000	Total AED '000
	Less than 3 months AED '000	3 months to 6 months AED '000	6 months to 1 year AED '000							
Assets										
Cash and balances with banks	338,202	-	-	-	338,202	247,300	-	-	35,000	620,502
Islamic financing and investing assets	607,323	67,480	96,687	-	771,490	886,596	1,561,625	-	-	3,219,711
Available-for-sale investments	-	-	-	-	-	-	-	-	7,688	7,688
Advance for Investment Properties	-	-	-	-	-	30,036	292,782	-	-	322,818
Investment Properties	-	-	-	-	-	147,677	1,475,419	-	-	1,623,096
Properties under Development	-	-	-	-	-	220,679	-	-	-	220,679
Investment in an associate	-	-	-	-	-	-	-	-	293,540	293,540
Other assets	17,294	113	24,694	-	42,101	120,249	-	-	-	162,350
Furniture, fixture and office equipment	-	-	-	-	-	-	-	-	22,284	22,284
Total assets	962,819	67,593	121,381		1,151,793	1,652,537	3,329,826	358,512		6,492,668
Liabilities										
Investment deposits and other Islamic financing	-	-	-	-	-	2,248,999	2,433,025	-	-	4,682,024
Term Islamic financing	712	712	1,425	-	2,849	14,247	40,608	-	-	57,704
Employees' end of service benefits	-	-	-	-	-	-	-	-	6,157	6,157
Other liabilities	117,531	4,456	10,391	-	132,378	2,713	-	-	-	135,091
Total liabilities	118,243	5,168	11,816		135,227	2,265,959	2,473,633	6,157		4,880,976
Commitments	253,595	37,808	25,334		316,737	40,764	-	-	-	357,501
Net liquidity gap	590,981	24,617	84,231		699,829	(654,186)	856,193	352,355		1,254,191
Cumulative net liquidity gap	590,981	615,598	699,829		699,829	45,643	901,836	1,254,191		1,254,191

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The liquidity risk table above

Maturity analysis of assets and liabilities (continued)

At 31 December 2015

	Up to 1 year				Total up to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Items with no maturity AED'000	Total AED'000
	Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000						
<i>Assets</i>									
Cash and balances with banks	503,112	-	-	-	503,112	68,328	-	35,000	606,440
Islamic financing and investing assets	239,452	51,693	105,853	-	396,998	1,031,245	2,031,470	-	3,459,713
Available-for-sale investments	-	-	-	-	-	-	-	25,529	25,529
Advance for Investment Properties	-	-	-	-	-	30,036	292,782	-	322,818
Investment Properties	-	-	-	-	-	275,108	1,426,812	-	1,701,920
Properties under Development	-	-	-	-	-	386,418	-	-	386,418
Investments in an associate	-	-	-	-	-	-	-	282,096	282,096
Other assets	61,484	2,851	24,638	-	88,973	-	-	-	88,973
Furniture, fixture and office equipment	-	-	-	-	-	-	-	14,168	14,168
Total assets	804,048	54,544	130,491	-	989,083	1,791,135	3,751,064	356,793	6,888,075
<i>Liabilities</i>									
Investment deposits and other Islamic financing	-	-	-	-	-	1,945,866	2,899,366	-	4,845,232
Term Islamic financing	1,191	1,191	2,381	-	4,763	62,373	2,663	-	69,799
Employees' end of service benefits	-	-	-	-	-	-	-	6,292	6,292
Other liabilities	133,806	2,053	7,573	-	143,432	92,010	-	-	235,442
Total liabilities	134,997	3,244	9,954	-	148,195	2,100,249	2,902,029	6,292	5,156,765
Commitments	235,247	1,637	6,566	-	243,450	75,802	-	-	319,252
Net liquidity gap	433,804	49,663	113,971	-	597,438	(384,916)	849,035	350,501	1,412,058
Cumulative net liquidity gap	433,804	483,467	597,438	-	597,438	212,522	1,061,557	1,412,058	1,412,058

31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

Operational risk

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

Capital Management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The restructuring effected at 25 November 2014 represented a significant change in the capital structure of the Group. Capital comprises share capital, employee stock option plan shares, statutory reserve, general reserve, special reserve, cumulative changes in fair value, foreign currency translation reserve, Mudaraba Instrument, Mudaraba Instrument reserve and accumulated losses and is measured at AED 1,493 million as at 31 December 2016 (2015: AED 1,587 million).

Fair value of financial assets and liabilities

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

32 SOCIAL CONTRIBUTIONS

The Company pursues a Corporate Social Responsibility strategy and has formally registered with the Dubai Chamber of Commerce and Industry (DCCI) for Dubai Chamber CSR Label program. The Company has made social contributions mainly to Dubai Health Authority, Smart Life Foundation and Emirates Red Crescent during the year towards humanitarian activities.

33 RECLASSIFICATION

Certain prior year figures are reclassified to make current year presentation in line with most recent audited financial statements for the year ended 31 December 2015.