Al Futtaim Finance PV JSC

Directors' report and financial statements for the year ended 31 December 2019

Al Futtaim Finance PV JSC

Directors' report and financial statements for the year ended 31 December 2019

Al-Futtaim finance

Al-Futtaim Finance PV JSC
P.O. Box 283568, Dubai, UAE
tel +971 4 304 7600
fax +971 4 338 7671
www.al-futtaim.ae
commercial registration 615137
paid up capital AED 125,000,000

Directors' report on the financial results for the year ended 31 December 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

Principal activities

Al Futtaim Finance PV JSC (the "Company") is a private joint stock company governed under UAE Federal Law No. (2) of 2015. The Company is licensed by the UAE Central Bank as a finance company and has structured its activities to be in compliance with the new regulation (Circular No: 112/2018) issued on 24 April 2018 by the Central Bank of UAE. The Company is primarily engaged in consumer finance and other related ancillary products and services including distribution of third party products.

Results

Gross operating income of the Company for the year is AED 123.99 million (2018: AED 71.26 million).

As at 31 December 2019, the Company's personal loan portfolio stands at AED 10 million with 1,365 total number of loans (2018: AED 14 million with 1,457 total number of loans).

The net result for the year 2019 was a profit of AED 35.76 million (2018: AED 22.13 million).

Auditors

A resolution proposing to reappoint PricewaterhouseCoopers (Dubai Branch) as auditors for the year ending 31 December 2020 will be put to the member at the Annual General Meeting.

For and on behalf of the Board of Directors

Omar Abdulla Al Futtaim
Chairman
Al Futtaim Finance PV JSC

Date: 26th March 2020
Dubai

Independent auditor's report to the shareholders of Al Futtaim Finance PV JSC

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Futtaim Finance PV JSC (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Other information

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

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

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

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

Independent auditor's report to the shareholders of Al Futtaim Finance PV JSC (continued)

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

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

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

pwc

Independent auditor's report to the shareholders of Al Futtaim Finance PV JSC (continued)

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

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.

Report on other legal and regulatory requirements

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

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

ii. the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended;

iii. the Company has maintained proper books of account;

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

v. as disclosed in Note 1 to the financial statements, the Company has not purchased or invested in any shares during the year ended 31 December 2019;

vi. note 18 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and

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 year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, or in respect of the Company, it's Articles of Association which would materially affect its activities or its financial position as at 31 December 2019.

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

PricewaterhouseCoopers
29 March 2020

Mohamed ElBorno
Registered Auditor Number 946
Dubai, United Arab Emirates

Al Futtaim Finance PV JSC

Statement of financial position

	Note	As at 31 December 2019 AED'000	2018 AED'000
ASSETS			
Cash and bank balances	9	214,520	178,752
Other assets	11	16,889	12,935
Due from related parties	18	11,381	14,641
Loans to customers	10	9,676	14,279
Property and equipment	12	427	1,011
Intangible assets	13	1,796	392
Total assets		**254,689**	**222,010**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15	125,000	125,000
Statutory reserve	16	18,791	15,215
Retained earnings		83,992	51,805
Total equity		**227,783**	**192,020**
LIABILITIES			
Due to related parties	18	3,822	8,659
Other liabilities	14	23,084	21,331
Total liabilities		**26,906**	**29,990**
Total equity and liabilities		**254,689**	**222,010**

These financial statements were authorised for issue on 26 Mar 2020 on behalf of the Board of Directors by:

Omar Abdulla Al Futtaim
Chairman
Al Futtaim Finance PV JSC

Bernd Erich Schwendtke
Director
Al Futtaim Finance PV JSC

Richard Kassaby
Managing Director
Al Futtaim Finance PV JSC

Ankur Mundra
CFO
Al Futtaim Finance PV JSC

Al Futtaim Finance PV JSC

Statement of comprehensive income

	Note	Year ended 31 December 2019 AED'000	2018 AED'000
Commission income	5	109,160	55,870
Credit card commission income	6	7,133	8,848
Interest income on loans to customers		1,958	2,723
Other income	7	5,744	3,821
Operating income		**123,995**	**71,262**
Personnel costs		44,034	39,589
Commission expense	18	34,196	-
Credit card reward costs		2,480	1,897
Impairment loss on financial assets	10,11	2,281	1,301
Rental expenses	18	982	1,709
Depreciation and amortisation	12,13	923	691
Other general and administrative expenses	8	3,336	3,947
Operating expenses		**88,232**	**49,134**
Profit for the year		35,763	22,128
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**35,763**	**22,128**

Statement of changes in equity

	Share capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total equity AED'000
Balance at 1 January 2018	125,000	13,002	31,890	169,892
Total comprehensive income for the year	-	-	22,128	22,128
Transfer to statutory reserve (Note 16)	-	2,213	(2,213)	-
Balance at 31 December 2018	125,000	15,215	51,805	192,020
Total comprehensive income for the year	-	-	35,763	35,763
Transfer to statutory reserve (Note 16)	-	3,576	(3,576)	-
Balance at 31 December 2019	125,000	18,791	83,992	227,783

The notes on the pages 9 to 36 form an integral part of these financial statements.

Al Futtaim Finance PV JSC

Statement of cash flows

	Note	Year ended 31 December 2019 AED'000	2018 AED'000
Cash flows from operating activities			
Profit for the year		35,763	22,128
Adjustments for:			
Depreciation and amortisation	12,13	923	691
Impairment loss on financial assets	10,11	2,281	1,301
Loss on write off of property and equipment		-	64
Profit on disposal of property and equipment		-	(14)
Interest income on deposits	7	(5,325)	(3,282)
Operating profit before changes in operating assets and liabilities:			
Due from related parties		3,260	(1,829)
Other assets		(5,597)	(4,918)
Loans to customers		3,927	6,381
Due to related parties		(4,837)	(413)
Other liabilities		1,753	(7,533)
Net cash generated from operating activities		32,148	12,576
Investing activities			
Purchase of property and equipment	12	(12)	(1,526)
Purchase of intangible assets	13	(1,731)	(313)
Proceeds from disposal of property and equipment		-	68
Net movement in term deposits	11	50,000	(110,000)
Interest income received		5,363	1,616
Net cash generated from / (used in) investing activities		53,620	(110,155)
Net increase / (decrease) in cash and cash equivalents		85,768	(97,579)
Cash and cash equivalents at 1 January		68,752	166,331
Cash and cash equivalents at 31 December	8	154,520	68,752

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

1 Corporate information

Al Futtaim Finance PV JSC (the "Company") is a Private Joint Stock Company incorporated on 14 August 2008 in Dubai, United Arab Emirates (UAE). The Company's registered address is at PO Box 283568, Eye Brow Building, Marsa Plaza, Marsa Al Khor, Dubai Festival City, Dubai, UAE.

The Company is licensed by the UAE Central Bank as a finance company and is primarily engaged in consumer finance and other related ancillary products and services.

The Company is a subsidiary of Al-Futtaim Development Services Co. L.L.C (the "Parent Company") and the ultimate parent company is Al-Futtaim Private Company L.L.C (the "Ultimate Parent Company").

The Company has not purchased or invested in any shares during the year ended 31 December 2019.

2 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements have been presented in UAE Dirhams, which is the Company's functional currency, and rounded off to nearest thousand (AED'000), except when otherwise indicated.

2.2 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretation Committee ("IFRS IC") interpretations as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE").

2.3 Presentation of financial statements

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 19.

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

(a) New and amended standards adopted by the Company

The Company has applied the following standards for the first time for their annual reporting period commencing from 1 January 2019:

- IFRS 16 Leases

This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts.

2 Summary of significant accounting policies (continued)

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

(a) New and amended standards adopted by the Company (continued)

- IFRS 16 Leases (continued)

The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The impact of IFRS 16 on the financial statements of the Company has been disclosed in Note 2.5.

- Prepayment features with negative compensation – Amendments to IFRS 9
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle

The amendments and improvements listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods..

(b) New standards and interpretations not yet adopted by the Company

The Company has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

- Amendments to IAS 1 and IAS 8 – Effective from 1 January 2020

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

This amendment is not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

2.5 Changes in accounting policies

The Company has consistently applied the accounting policies as applied by the Company in the financial statements for the year ended 31 December 2018, except the following accounting policies which are applicable from 1 January 2019.

IFRS 16 Leases

The Company has adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented in 2018 has not been restated and is presented, as previously reported, under IAS 17 and its related interpretations.

2 Summary of significant accounting policies (continued)

2.5 Changes in accounting policies (continued)

IFRS 16 Leases (continued)

- Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an arrangement contains a lease. The Company now assesses each contract based on the new definition of lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not assessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

- As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of such leases. However, the Company has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Company recognises the lease payments associated with these leases as an expense on straight-line basis over the lease term.

Practical expedients

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight, such as determining the lease term if the contract contains options to extend or terminate the lease.

Impact for the period

As of 31 December 2019 and 2018, the Company did not have any long term operating lease commitments or leases of high value assets. Accordingly, the Company elected to apply the practical expedients described above and has not recognised any right-of-use assets and lease liabilities for the year ended 31 December 2019.

Accounting policies applied until 31 December 2018

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

2 Summary of significant accounting policies (continued)

2.5 Changes in accounting policies (continued)

Accounting policies applied until 31 December 2018 (continued)

- Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

3 Significant management judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

3.1 Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

(i) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) IFRS 16

The Company has applied judgement to determine certain factors used in the measurement and recognition of lease liabilities and right-of-use assets under IFRS 16 as changes in these judgements could significantly impact the balances of these assets and liabilities. In its assessment, the Company has considered several factors including:

3 Significant management judgements, estimates and assumptions (continued)

3.1 Judgments (continued)

(ii) IFRS 16 (continued)

- **Lease terms and extension options:** The Company has applied judgement to determine the lease term for lease contracts in which it is a lessee, including renewal and termination options and commercial terms. The Company further considers all facts and circumstances that create an economic incentive to continue and/or terminate lease agreements. These include the value of the leasehold improvement spend, costs or penalties expected to be incurred upon termination of the lease agreements, past practice of renewal, importance of the leased asset to the business operations and other market conditions. The Company applies the same level of judgement and consideration to leases entered into regardless of whether the lessor is an external party or a related party.

- **Restoration costs:** The Company assesses the restoration costs and their impact and consider several circumstances including, defined clauses in the lease agreements, prevalent market practice and historical experience.

- **Fit-out and rent-free periods:** The Company has not considered fit-out periods in its application and adoption of IFRS 16 as the impact of these items on the financial statements of the Company is not considered to be material.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(i) **Financial instruments**

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9, Financial Instruments (effective from periods beginning on or after 1 January 2018) which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

- Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9, Financial Instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

3 Significant accounting judgements, estimates and assumptions (continued)

3.2 Estimates and assumptions (continued)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Company while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Company compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Company's existing risk management processes.

The Company's assessment of significant increases in credit risk is being performed quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Company has established thresholds for significant increases in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) such as GDP (where applicable), that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Company's ECL calculation will have forecasts of the relevant macroeconomic variables.

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

3 Significant accounting judgements, estimates and assumptions (continued)

3.2 Estimates and assumptions (continued)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 methodology (continued)

Expected Life

When measuring the expected credit losses, the Company must consider the maximum contractual period over which the Company is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options.

(ii) Commission income

Commission income relates to amounts earned from distribution of third party products i.e. financial institutions, automotive and insurance companies. Commission income from finance deals is recognised when the amount of commission can be measured reliably and is based on invoices generated by automotive.

There is a time lag of one to three months between the income accrued on finance deals by the Company and the amounts confirmed by the financial institutions. At the reporting date, accrued commission income of AED 3,790 thousand (2018: AED 2,932 thousand) was yet to be confirmed by the respective financial institutions.

Management has made an accrual based on the latest information available up to the reporting date. Any differences between the amounts actually realised in future periods and the accrued amount will be recognised in the statement of comprehensive income in the period when such differences are identified.

(iii) Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the industry averages, expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and the future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

4 Significant accounting policies

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

4.1 Revenue from contracts with customers

Revenue is recognised when the control of the services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has concluded that it is the principal for its revenue streams since it is the primary obligor, has pricing latitude and is also exposed to credit risk.

(i) Commission income

Commission income relates to amounts accruing from financial institutions, automotive and insurance companies and is recognised when the amount of commission is earned and the amount can be reliably measured.

4 Significant accounting policies (continued)

4.1 Revenue from contracts with customers (continued)

(ii) Interest income on consumer loans

Interest income on consumer loans is recorded using the effective interest method. Effective interest method is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset is adjusted if the Company revises its estimates of receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded within 'Interest income on loans to customers'.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(iii) Credit card commission income

Credit card commission income relates to amounts accruing from financial institutions and is recognised when the amount of commission is earned and the amount can be reliably measured.

(iv) Interest income on fixed deposits

Interest income on fixed deposits is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts, estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Interest income on fixed deposits is included in 'other income' in the statement of comprehensive income.

4.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The cost of property and equipment represents the purchase cost together with any incidental expenses of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is computed using the straight line method at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful lives as follows:

Leasehold improvements*	up to 10 years
Office equipment and furniture	up to10 years
Computer equipment	up to 5 years

*Leasehold improvements are depreciated over the lower of their useful life and lease term.

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

4 Significant accounting policies (continued)

4.2 Property and equipment (continued)

Repairs and renewals are charged to the statement of comprehensive income when expenditure is incurred. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised in statement of comprehensive income, if any.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount.

4.3 Intangible assets

Intangible assets comprise of computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, if any, and that will probably generate economic benefits exceeding cost beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs.

These costs are amortised over their estimated useful lives of upto 5 years. The estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Capital work-in-progress is stated at cost and includes software costs that are being developed for future use. When commissioned, capital work-in progress is transferred to the appropriate category of intangible assets and amortised in accordance with the Company's policies.

4.4 Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash –generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

4.5 Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income (OCI) or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

(i) Financial assets (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 Company commits to purchase or sell the asset.

The Company's financial assets include bank balances and cash, loans to customers, amounts due from related parties and other assets (excluding prepayments).

Subsequent measurement

As at 31 December 2019, the Company has no financial assets at fair value through profit or loss; financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments) and financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

Financial assets at amortised cost

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

(i) Financial assets (continued)

Derecognition (continued)

When the Company 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 asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company 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 Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions — Note 3
- Financial assets — Notes 10 and 20

The Company recognises an allowance for expected credit losses (ECLs) for loans to customers and bank balances. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For amounts due from related parties and other receivables, the Company assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include other liabilities and amounts due to related parties.

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

(ii) Financial liabilities (continued)

Subsequent measurement

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

Other payables and accrued expenses

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

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 statement of comprehensive income.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

(iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models, as appropriate.

4.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts, if any.

4 Significant accounting policies (continued)

4.7 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and risks specific to the obligation. Increases in provisions due to the passage of time are recognised as an interest expense.

4.8 Employees' end of service benefits

A provision is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by the employees up to the reporting date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE labour law for their periods of service up to the reporting date.

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists. The Company's obligations are limited to these contributions, which are expensed when due.

4.9 Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss.

4.10 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.

5 Commission income

	2019 AED'000	2018 AED'000
On F&I (Finance & Insurance) products sold by related parties	58,532	32,573
On arrangement of auto-finance deals from panel banks*	50,628	23,297
	109,160	55,870

*Commission income is earned by the Company on auto-finance deals from panel banks, though this commission is received from a related party. As the original source of this commission income is from panel banks (non-related party), this income is considered as a non-related party transaction.

5 Commission income (continued)

During the year, the Company changed its commission income sharing arrangement with its related parties on mutually agreed terms from previously sharing the gross commission income earned on the sale of F&I products and auto-finance deals from panel banks to now sharing the commission income equivalent to the net F&I income after considering the impact of the related costs as well.

6 Credit card commission income

	2019 AED'000	2018 AED'000
Commission on merchant service fee rebate and card issuance	3,355	2,458
Commission from Co-Branded credit card	2,327	4,223
Performance and sign-on bonus	887	1,625
Marketing support	564	542
	7,133	8,848

7 Other income

	2019 AED'000	2018 AED'000
Interest income on deposits	5,325	3,282
Amortisation of application fees for loan to customers	176	271
Other miscellaneous income	243	268
	5,744	3,821

8 Other general and administrative expenses

	2019 AED'000	2018 AED'000
Legal and professional expenses	1,295	1,055
IT maintenance costs	1,213	1,337
Other expenses	828	1,555
	3,336	3,947

9 Cash and bank balances

	2019 AED'000	2018 AED'000
Cash in hand	2	2
Bank balances	24,518	28,750
Short term fixed deposits	190,000	150,000
Cash and bank balances	214,520	178,752
Less: term deposits with original maturity greater than three months	(60,000)	(110,000)
Cash and cash equivalents	154,520	68,752

9 Cash and bank balances (continued)

Deposits are held with commercial banks in the United Arab Emirates and are denominated in UAE Dirhams. These are short term in nature and have an effective interest rate of 2.98% (2018: 2.58%) per annum.

10 Loans to customers

The composition of the loans portfolio is as follows:

	2019 AED'000	2018 AED'000
Consumer loans	10,694	14,974
Less: Provision for impairment on loans to customers	(1,018)	(695)
	9,676	14,279

The movement in provision for impairment on loans to customers during the year is as follows:-

	2019 AED'000	2018 AED'000
At 1 January	695	481
Charge for the year	323	214
At 31 December	1,018	695

In addition to the above, the Company has written off loans to customers amounting to AED 354 thousand during the year ended 31 December 2019 (2018: AED 1,087 thousand).

As at 31 December, the ageing of loans to customers is as follows:

			Past due but not impaired			Loans past due & impaired
	Carrying amount Total	**Neither past due nor impaired**	**<= 30 days**	**31-60 days**	**61-90 days**	**> 91 days**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
2019	9,676	9,498	87	27	35	29
2018	14,279	13,950	107	51	34	137

The above ageing is based on the instalment amounts due. Where instalments are past due, the provision for impairment is made on the total loan outstanding in line with the Central Bank regulations and the 'Expected Credit Loss' model under IFRS 9; with the higher of the two being maintained. It is not the practice of the Company to obtain collateral over loans to customers as the vast majority of loans are unsecured.

11 Other assets

	2019 AED'000	2018 AED'000
Due from financial institutions	11,875	7,613
Accrued commission income	3,790	2,932
Interest receivable on deposits	1,628	1,666
Prepayments and other receivables	1,200	724
	18,493	12,935
Provision for impairment of other assets	(1,604)	-
	16,889	12,935

The movement in provision for impairment on other assets during the year is as follows:-

	2019 AED'000	2018 AED'000
At 1 January	-	-
Charge for the year	1,604	-
At 31 December	1,604	-

12 Property and equipment

	Leashold improvements	Office equipment and furniture	Computer equipment	Total
	AED'000	AED'000	AED'000	AED'000
Cost				
At 1 January 2018	5,238	1,073	3,054	9,365
Additions	1,028	497	1	1,526
Written off	(5,238)	(2)	(11)	(5,251)
Disposals	-	(801)	(1,254)	(2,055)
Transferred to a related party	-	-	(1,630)	(1,630)
At 31 December 2018	1,028	767	160	1,955
Additions	-	-	12	12
Disposals	-	-	(7)	(7)
At 31 December 2019	1,028	767	165	1,960
Accumulated depreciation				
At 1 January 2018	5,238	1,000	2,666	8,904
Charge for the year	456	77	83	616
Related to assets written off	(5,238)	(2)	(11)	(5,251)
Related to disposals	-	(747)	(1,254)	(2,001)
Transferred to a related party	-	-	(1,324)	(1,324)
At 31 December 2018	456	328	160	944
Charge for the year	477	110	10	597
Related to disposals	-	-	(8)	(8)
At 31 December 2019	933	438	162	1,533
Net book value				
At 31 December 2019	95	329	3	427
At 31 December 2018	572	439	-	1,011

13 Intangible assets

	Software	Capital Work in Progress	Total
	AED'000	AED'000	AED'000
Cost			
At 1 January 2018	6,533	-	6,533
Additions	313	-	313
Written off	(6,096)	-	(6,096)
Transferred to a related party	(274)	-	(274)
At 31 December 2018	476	-	476
Additions	-	1,730	1,730
At 31 December 2019	476	1,730	2,206
Accumulated amortisation			
At 1 January 2018	6,295	-	6,295
Charge for the year	75	-	75
Related to assets written off	(6,032)	-	(6,032)
Transferred to a related party	(254)	-	(254)
At 31 December 2018	84	-	84
Charge for the year	326	-	326
At 31 December 2019	410	-	410
Net book value			
At 31 December 2019	66	1,730	1,796
At 31 December 2018	392	-	392

14 Other liabilities

	2019	2018
	AED'000	AED'000
Provision for employees' end of service benefits	7,318	6,610
Staff related provisions	6,055	6,405
Deferred income	3,917	4,356
Accrued expenses	2,004	2,100
Other payables	3,790	1,860
	23,084	21,331

In accordance with the UAE Labour Law, the Company provides for end of service benefits for its expatriate employees. Movement in the employees' end of service benefits for the year is as shown overleaf:

14 Other liabilities (continued)

	2019 AED'000	2018 AED'000
At 1 January	6,610	6,765
Charge for the year	1,023	1,319
Transferred from/(to) a related party	343	(290)
Payments made during the year	(658)	(1,184)
At 31 December	7,318	6,610

Other payables and accrued expenses are non-interest bearing and have an average term of six months.

15 Share capital

	2019 AED'000	2018 AED'000
Subscribed, issued and fully paid up:		
125,000,000 shares (2018: 125,000,000 shares) of AED 1 each	125,000	125,000

16 Statutory reserve

In accordance with the UAE Federal Law No. (2) of 2015 and the Company's articles of association, 10% of the annual profit of the Company is required to be transferred to a statutory reserve until the reserve equals 50% of the share capital. The Company transferred AED 3,576 thousand (2018: AED 2,213 thousand) to statutory reserve during the current year.

17 Contingencies and commitments

	2019 AED'000	2018 AED'000
Bank guarantees	35,000	35,000
Capital committments	2,338	-

18 Related party transactions

The Company enters into transactions in the ordinary course of business with related parties, defined as major shareholders, parent company, ultimate parent company, directors, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are mutually agreed upon and approved by the Company's management.

Income and expenses in respect of related parties included in the financial statements are shown overleaf:

18 Related party transactions (continued)

	2019 AED'000	2018 AED'000
Entities under common control:		
Commission income (Note 5)	58,532	32,573
Commission (net F&I income) shared with related parties	34,196	-
Rental expenses	982	1,709
Other general and administrative expenses	7,541	2,498

Significant balances outstanding at 31 December in respect of related parties included in the financial statements are as follows:

	2019 AED'000	2018 AED'000
Entities under common control:		
Due from related parties	11,381	14,641
Due to related parties	3,822	8,659

Outstanding balances at the year-end arise in the normal course of business and are unsecured, interest free with settlement taking place in cash.

There have been no guarantees provided or received for any related party receivables or payables.

For the year ended 31 December 2019, the Company has not recorded any impairment of amounts owed by related parties (2018: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel:
The remuneration of key members of management of the Company during the year was as follows:

	2019 AED'000	2018 AED'000
Short term employee benefits	3,179	2,907
Employees' end of service benefits	117	112
	3,296	3,019

19 Maturity analysis of assets and liabilities

The below table shows an analysis of assets and liabilities analysed according to their respective contractual maturity.

	1 to 12 months AED'000	Over 1 year AED'000	Items with no maturity AED'000	Total AED'000
31 December 2019				
Assets				
Cash and bank balances	190,000	-	24,520	214,520
Other assets	16,889	-	-	16,889
Amounts due from related parties	11,381	-	-	11,381
Loans to customers	5,270	4,406	-	9,676
Property and equipment	-	-	427	427
Intangible Assets	-	-	1,796	1,796
Total	223,540	4,406	26,743	254,689
Liabilities				
Amounts due to related parties	3,822	-	-	3,822
Other liabilities	15,766	7,318	-	23,084
Total	19,588	7,318	-	26,906
Net assets	203,952	(2,912)	26,743	227,783

	1 to 12 months AED'000	Over 1 year AED'000	Items with no maturity AED'000	Total AED'000
31 December 2018				
Assets				
Cash and bank balances	150,000	-	28,752	178,752
Other assets	12,935	-	-	12,935
Amounts due from related parties	14,641	-	-	14,641
Loans to customers	7,051	7,228	-	14,279
Property and equipment	-	-	1,011	1,011
Intangible assets	-	-	392	392
Total	184,627	7,228	30,155	222,010
Liabilities				
Amounts due to related parties	8,659	-	-	8,659
Other liabilities	14,721	6,610	-	21,331
Total	23,380	6,610	-	29,990
Net assets	161,247	618	30,155	192,020

20 Risk management

The Company's principal financial liabilities comprise amounts due to related parties and other liabilities. The main purpose of these financial liabilities is to finance the Company's working capital requirements. The Company has amounts due from related parties, other assets, loans to customers and bank balances and cash that are derived directly from its operations.

The Company is exposed primarily to credit risk and liquidity risk.

The Company's senior management oversees the management of these risks. The Company's senior management is supported by an advisory committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The advisory committee provides assurance to the Company's senior management that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite. The Company has not engaged in any derivative activities during the current or previous year. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(i) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Such risk arises from loans, accrued commission income and other activities undertaken by the Company. Credit risk is actively monitored in accordance with the credit policies which clearly define policies and procedures.

The Company enters into personal loan contracts which are repaid on an instalment basis. Credit risk on consumer loans is managed through a credit quality review process to provide early identification of possible changes in the credit worthiness of the individual.

Credit risk from balances with banks and financial institutions is managed by the Company's management in accordance with the Company's credit policy. Limits are set to minimise concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Company's maximum exposure to credit risk is equal to the carrying amount of these financial instruments. With respect to credit risk on bank balances, the Company is not exposed to any significant credit risk based on the review of historical internal and external factors and currently available future information and the ECL have been assessed and concluded by management as minimal.

Credit risk measurement

The estimation of credit risk for risk management purpose is complex and requires use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring and of the associated loss ratios. The Company measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is similar to the approach used for the purpose of measuring ECL under IFRS 9.

Expected Credit Loss (ECL) measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in stage 1 and has its credit risk continuously monitored by the Company;

20 Risk management (continued)

(i) Credit risk (continued)

***Expected Credit Loss (ECL) measurement** (continued)*

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired;
- If the financial instrument is credit impaired, the financial instrument is then moved to stage 3;
- Financial instrument in stage 1 have their ECL measured at an amount equal to the portion of ECL that results from default events possible within the next 12 months. Instruments in stages 2 or 3 have their ECL measured on a lifetime basis;
- ECL is measured after factoring forward-looking information.

Credit quality analysis

The following table sets out information about the credit quality of the components of the statement of financial position that have an exposure to credit risk:

	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL** AED'000	**Stage 3 Lifetime ECL** AED'000	**Total** AED'000
31 December 2019				
At amortised cost				
Cash and bank balances (Note 9)	214,520	-	-	214,520
Other assets* (Note 11)	12,466	-	4,827	17,293
Due from related parties (Note 18)	11,381	-	-	11,381
Loans to customers (Note 10)	9,762	330	602	10,694
Gross credit exposure	248,129	330	5,429	253,888
Less: Allowance for impairment	(215)	(250)	(2,157)	(2,622)
Carrying amount	247,914	80	3,272	251,266

	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL** AED'000	**Stage 3 Lifetime ECL** AED'000	**Total** AED'000
31 December 2018				
At amortised cost				
Cash and bank balances (Note 9)	178,752	-	-	178,752
Other assets* (Note 11)	12,211	-	-	12,211
Due from related parties (Note 18)	14,641	-	-	14,641
Loans to customers (Note 10)	14,345	377	252	14,974
Gross credit exposure	219,949	377	252	220,578
Less: Allowance for impairment	(286)	(292)	(117)	(695)
Carrying amount	219,663	85	135	219,883

20 Risk management (continued)

(i) Credit risk (continued)

* Excludes prepayments and other receivables.

Credit quality analysis (continued)

Banking transactions are undertaken with local banks and branches of international banks. The credit quality of balances held with banks can be assessed by reference to external credit ratings as follows:

Counter party	Moody's rating	31 December 2019 AED'000	31 December 2018 AED'000
Bank 1	Baa1	149,507	108,744
Bank 2	A1	5	40,000
Bank 3	A3	65,005	30,006
Bank 4	No rating	1	-
		214,518	178,750

Loss allowance

The following table explain the changes in the loss allowance during the years ended 31 December 2018 and 31 December 2019:

31 December 2019	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance at 1 January 2019	286	292	117	695
Allowance for impairment on loans to customers - net	(71)	(42)	436	323
Allowance for impairment on other assets - net	-	-	1,604	1,604
Loss allowance at 31 December 2019	215	250	2,157	2,622

31 December 2018	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance at 1 January 2018	481	-	-	481
Allowance for impairment on loans to customers - net	(195)	292	117	214
Loss allowance at 31 December 2018	286	292	117	695

20 Risk management (continued)

(i) Credit risk (continued)

Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no, CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for financial institutions adopting IFRS 9 in the UAE ("the guidance").

Pursuant to clause 6.4 of the guidance, the reconciliation between the general and specific provision under the Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2019 AED'000
Impairment reserve: General	
General provisions under Circular 28/2010 of CBUAE	152
Less: Stage 1 and Stage 2 provisions under IFRS 9	465
General provision transferred to the impairment reserve*	-
Impairment reserve: Specific	
Specific provisions under Circular 28/2010 of CBUAE	477
Less: Stage 3 provisions under IFRS 9	553
Specific provision transferred to the impairment reserve*	-
Total provision transferred to the impairment reserve	-

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

(ii) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources including funding from related parties, and assets are managed with liquidity in mind.

20 Risk management (continued)

(ii) Liquidity risk (continued)

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2019, based on contractual payment dates and contractual interest rates.

	Less than 3 months AED'000	**3 to 12 months** AED'000	**1 to 5 years** AED'000	**>5 years** AED'000	**Total** AED'000
31 December 2019					
At amortised cost					
Amounts due to related parties	3,822	-	-	-	3,822
Other liabilities*	11,849	-	-	-	11,849
	15,671	-	-	-	15,671

	Less than 3 months AED'000	**3 to 12 months** AED'000	**1 to 5 years** AED'000	**>5 years** AED'000	**Total** AED'000
31 December 2018					
At amortised cost					
Amounts due to related parties	8,659	-	-	-	8,659
Other liabilities*	10,364	-	-	-	10,364
	19,023	-	-	-	19,023

*Excludes provision for employees' end of service benefits and deferred income.

(a) Interest rate risk

Interest rate 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 Company is currently not exposed to any significant interest rate risk as loans to customers and term deposits carry fixed interest rates.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company is not exposed to any significant currency risk as at the reporting date.

21 Capital management

Capital management

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

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue additional capital. Capital comprises of share capital, statutory reserve and retained earnings and is measured at AED 227,783 thousand as at 31 December 2019 (2018: AED 192,020 thousand).

The Company is required to maintain a minimum capital adequacy ratio of 15% as per Central Bank's resolution number 58/3/96. At 31 December 2019, the Company has a capital adequacy ratio of 90% (2018: 96%) and was in compliance with the minimum capital requirements.

22 Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, loans to customers, amounts due from related parties and other receivables. Financial liabilities consist of amounts due to related parties and other liabilities.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Management assessed that the fair values of the above financial assets and liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

23 Subsequent events

The following non-adjusting events occurred after 31 December 2019:

1. On 7 January 2020, the Company amended its Memorandum of Association and Articles of Association to meet the minimum paid-up capital requirement of AED 150 million for a Finance Company as per Article 11, Circular No: 112/2018 of the Finance Companies Regulation issued by the Central Bank of UAE on 24 April 2018.

   This amendment was executed by issuing additional shares to the Company's existing shareholders by way of a stock dividend of AED 25 million resulting in an additional 25 million shares being issued with a nominal value of AED 1. This did not have any impact on the shareholding structure of the Company.

   As a result of this amendment, the Company's revised share capital which will be disclosed in the financial statements for the year ended 31 December 2020 is expected to be as follows:

Shareholders	**As of 31 December 2019** AED	**As of 31 December 2020** AED
Al Futtaim Development Services Company LLC	73,750,000	88,500,000
Al Futtaim Capital Co LLC	50,000,000	60,000,000
Omar Abdulla Al Futtaim	1,250,000	1,500,000
Total share capital	**125,000,000**	**150,000,000**

23 Subsequent events (continued)

2. On 8 January 2020, the Company entered into a novation agreement with its financial institution counterparties to transfer the Co-branded Credit Card business to 'Al Futtaim Digital Payment Services Single Person Company LLC'; a related party under common control; with effect from 1 January 2020.

   This would involve a transfer of all the Company's existing rights and obligations under the existing arrangements to the related party excluding transactions yet to be invoiced for the year ended 31 December 2019.

   As this stream of revenue represents a separate major line of business, the related income and expenses from this stream that are presented in the statement of comprehensive income will be disclosed separately under IFRS 5 as a discontinued operation in the financial statements for the year ended 31 December 2020.

24 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements.