

**Amlak Finance PJSC
and its Subsidiaries**

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2018 (UNAUDITED)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Amlak Finance PJSC and its subsidiaries (the 'Group') as of 30 June 2018, and the related interim consolidated statements of income and comprehensive income for the three-month and six-month periods, and statements of changes in equity and cash flows for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with *IAS 34 Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

For Ernst & Young



Signed by:
Anthony O'Sullivan
Partner
Registration No: 687

30 July 2018

Dubai, United Arab Emirates

Amlak Finance PJSC and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 June 2018 (Unaudited)

| | Notes | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|--|-------|---------------------------------------|-------------------------|-------------------------------------|-------------------------|
| | | <i>2018 AED'000</i> | <i>2017 AED'000</i> | <i>2018 AED'000</i> | <i>2017 AED'000</i> |
| Income from Islamic financing and investing assets | | 41,778 | 46,641 | 82,295 | 92,355 |
| Fee income | | 1,270 | 1,884 | 3,190 | 3,427 |
| Income on deposits | | 1,793 | 1,597 | 4,214 | 3,236 |
| Rental income | 7 | 16,704 | 15,231 | 32,087 | 30,159 |
| Fair value (loss) / gain on investment properties | 7 | (9,033) | 11,031 | 15,044 | 11,031 |
| Sale of properties under development | 8 | 48,504 | 10,365 | 55,102 | 32,943 |
| Other income | | 4,507 | 2,602 | 11,124 | 10,731 |
| | | 105,523 | 89,351 | 203,056 | 183,882 |
| (Impairment) / reversal of impairment on: | | | | | |
| - Islamic financing and investing assets | | (21,290) | 982 | (23,169) | 7,139 |
| - Other assets | | (2,014) | 94 | (2,159) | 316 |
| Amortisation of initial fair value gain on investment deposits | 9 | (24,844) | (27,087) | (59,194) | (54,502) |
| Operating expenses | | (30,893) | (27,317) | (60,718) | (56,851) |
| Cost of sale of properties under development | 8 | (879) | (3,576) | (3,850) | (13,886) |
| Share of results of an associate | | 6,325 | 6,648 | 12,397 | 11,060 |
| PROFIT BEFORE DISTRIBUTION TO FINANCIERS / INVESTORS | | 31,928 | 39,095 | 66,363 | 77,158 |
| Distribution to financiers / investors | | (27,591) | (31,033) | (55,194) | (61,640) |
| PROFIT FOR THE PERIOD | | 4,337 | 8,062 | 11,169 | 15,518 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 4,518 | 4,637 | 10,387 | 10,199 |
| Non-controlling interests | | (181) | 3,425 | 782 | 5,319 |
| | | 4,337 | 8,062 | 11,169 | 15,518 |
| Profit per share attributable to equity holders of the parent: | | | | | |
| Basic profit per share (AED) | 3 | 0.002 | 0.002 | 0.006 | 0.005 |
| Diluted profit per share (AED) | 3 | 0.001 | 0.001 | 0.003 | 0.003 |

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2018 (Unaudited)

| | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|---|---------------------------------------|-------------------------|-------------------------------------|-------------------------|
| | <i>2018 AED'000</i> | <i>2017 AED'000</i> | <i>2018 AED'000</i> | <i>2017 AED'000</i> |
| Profit for the period | 4,337 | 8,062 | 11,169 | 15,518 |
| Other comprehensive income | | | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> | | | | |
| Exchange differences on translation of foreign operations | (2,524) | 700 | (205) | 8,065 |
| <i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i> | | | | |
| Change in fair value of investments securities of an associate | (204) | - | (204) | - |
| Change in fair value of investment securities | (125) | - | (592) | - |
| Other comprehensive (loss) / income for the period | (2,853) | 700 | (1,001) | 8,065 |
| Total comprehensive income for the period | 1,484 | 8,762 | 10,168 | 23,583 |
| Attributable to: | | | | |
| Equity holders of the parent | 1,665 | 5,337 | 9,386 | 18,264 |
| Non controlling interests | (181) | 3,425 | 782 | 5,319 |
| | 1,484 | 8,762 | 10,168 | 23,583 |

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 (Unaudited)

| | Notes | 30 June 2018 AED'000 (Unaudited) | 31 December 2017 AED'000 (Audited) |
|--|-------|---|---|
| ASSETS | | | |
| Cash and balances with banks | 4 | 245,150 | 673,015 |
| Islamic financing and investing assets | | 2,812,467 | 3,084,983 |
| Investment securities | 5 | 11,795 | 12,387 |
| Advances for investment properties | 6 | 322,818 | 322,818 |
| Investment properties | 7 | 1,955,261 | 1,821,064 |
| Properties under development | 8 | 210,989 | 212,849 |
| Investment in an associate | | 288,712 | 302,567 |
| Other assets | | 94,327 | 132,489 |
| Furniture, fixtures and office equipment | | 16,765 | 17,072 |
| TOTAL ASSETS | | 5,958,284 | 6,579,244 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Investment deposits and other Islamic financing | 9 | 4,167,136 | 4,792,037 |
| Term Islamic financing | | 100,092 | 66,136 |
| Employees' end of service benefits | | 5,835 | 6,551 |
| Other liabilities | | 127,223 | 143,612 |
| Total liabilities | | 4,400,286 | 5,008,336 |
| Equity | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | | 1,500,000 | 1,500,000 |
| Treasury shares | | (93,048) | (93,048) |
| Statutory reserve | | 122,650 | 122,650 |
| General reserve | | 122,650 | 122,650 |
| Special reserve | | 99,265 | 99,265 |
| Mudaraba Instrument | | 215,472 | 215,472 |
| Mudaraba Instrument reserve | | 810,088 | 810,088 |
| Cumulative changes in fair value | | (98) | 698 |
| Foreign currency translation reserve | | (323,800) | (323,595) |
| General impairment reserve | | 4,316 | - |
| Accumulated losses | | (1,012,781) | (1,011,193) |
| Non-controlling interests | | 113,284 | 127,921 |
| Total equity | | 1,557,998 | 1,570,908 |
| TOTAL LIABILITIES AND EQUITY | | 5,958,284 | 6,579,244 |

Approved by the Board of Directors on 30 July 2018 and signed on its behalf by:



Chairman



Managing Director &
Chief Executive Officer

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2018 (Unaudited)

| | <i>Six months ended 30 June</i> | |
|---|---------------------------------|----------------|
| | <i>2018</i> | <i>2017</i> |
| | <i>AED'000</i> | <i>AED'000</i> |
| OPERATING ACTIVITIES | | |
| Profit for the period | 11,169 | 15,518 |
| Adjustments for: | | |
| Depreciation | 3,077 | 2,493 |
| Share of results of an associate | (12,397) | (11,060) |
| Impairment on other assets | 2,159 | (316) |
| Impairment /(reversal) of impairment on financing and investing assets | 23,169 | (7,139) |
| Fair value gain on investment properties | (15,044) | (11,031) |
| Amortisation of fair value adjustment on investment deposits | 59,194 | 54,502 |
| Distribution to financiers / investors | 55,194 | 61,640 |
| Income on deposits | (4,214) | (3,236) |
| Gain realised on sale of investment properties | (1,887) | - |
| Provision for employees' end of service benefit | 380 | 617 |
| | 120,800 | 101,988 |
| Operating profit before changes in operating assets and liabilities: | | |
| Islamic financing and investing assets | (181,191) | 141,906 |
| Other assets | 34,483 | 72,590 |
| Other liabilities | (16,107) | (13,401) |
| Cash used in operations | (42,015) | 303,083 |
| Employees' end of service benefit paid | (1,096) | (349) |
| Net cash (used in) / generated from operating activities | (43,111) | 302,734 |
| INVESTING ACTIVITIES | | |
| Dividend from an associate | 16,541 | 16,541 |
| Increase in investment properties - net | (31,309) | 7,995 |
| Decrease in properties under development | 1,860 | 656 |
| Movement in restricted cash | 71,665 | 5,625 |
| Proceeds from wakala deposits | 1,050,000 | 800,000 |
| Placement of wakala deposits | (700,000) | (1,000,000) |
| Purchase of furniture, fixtures and office equipment | (2,771) | (251) |
| Income on deposits | 4,214 | 3,236 |
| Net cash generated from / (used in) investing activities | 410,200 | (166,198) |
| FINANCING ACTIVITIES | | |
| Receipt of term Islamic financing | 40,392 | 2,454 |
| Repayment of term Islamic financing | (6,368) | - |
| Payment to non-controlling interests | (15,419) | - |
| Investment deposits and other Islamic financing | (739,569) | (60,496) |
| Directors' fees paid | (2,250) | (2,250) |
| Net cash used in financing activities | (723,214) | (60,292) |
| (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | (356,125) | 76,244 |
| Foreign currency translation reserve | (75) | 1,998 |
| Cash and cash equivalents at the beginning of the period | 432,562 | 338,201 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 76,362 | 416,443 |

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2018 (Unaudited)

Attributable to the equity holders of the parent

| | <i>Share capital AED'000</i> | <i>Treasury shares AED'000</i> | <i>Statutory reserve AED'000</i> | <i>General reserve AED'000</i> | <i>Special reserve AED'000</i> | <i>Mudaraba Instrument AED'000</i> | <i>Mudaraba Instrument reserve AED'000</i> | <i>Cumulative changes in fair value AED'000</i> | <i>Foreign currency translation reserve AED'000</i> | <i>General impairment reserve AED'000</i> | <i>Accumulated losses AED'000</i> | <i>Total AED'000</i> | <i>Non controlling interests AED'000</i> | <i>Total equity AED'000</i> |
|--|----------------------------------|------------------------------------|--------------------------------------|------------------------------------|------------------------------------|--|--|---|---|---|---------------------------------------|--------------------------|--|---------------------------------|
| At 1 January 2018 | 1,500,000 | (93,048) | 122,650 | 122,650 | 99,265 | 215,472 | 810,088 | 698 | (323,595) | - | (1,011,193) | 1,442,987 | 127,921 | 1,570,908 |
| Impact of adopting IFRS 9 (note 2.2) | | | | | | | | | | | | | | |
| - on the Group | - | - | - | - | - | - | - | - | - | 4,316 | - | 4,316 | - | 4,316 |
| - on an associate | - | - | - | - | - | - | - | - | - | - | (9,725) | (9,725) | - | (9,725) |
| Restated balance at 1 January 2018 | 1,500,000 | (93,048) | 122,650 | 122,650 | 99,265 | 215,472 | 810,088 | 698 | (323,595) | 4,316 | (1,020,918) | 1,437,578 | 127,921 | 1,565,499 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 10,387 | 10,387 | 782 | 11,169 |
| Other comprehensive loss for the period | - | - | - | - | - | - | - | (592) | (205) | - | - | (797) | - | (797) |
| Other comprehensive income share of an associate | - | - | - | - | - | - | - | (204) | - | - | - | (204) | - | (204) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (796) | (205) | - | 10,387 | 9,386 | 782 | 10,168 |
| Funds paid to project owner * | - | - | - | - | - | - | - | - | - | - | - | - | (15,419) | (15,419) |
| Director's fee paid | - | - | - | - | - | - | - | - | - | - | (2,250) | (2,250) | - | (2,250) |
| At 30 June 2018 | 1,500,000 | (93,048) | 122,650 | 122,650 | 99,265 | 215,472 | 810,088 | (98) | (323,800) | 4,316 | (1,012,781) | 1,444,714 | 113,284 | 1,557,998 |

* Funds paid to project owner represent capital redemption towards their share in sky gardens project.

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the period ended 30 June 2017 (Unaudited)

| | <i>Attributable to the equity holders of the parent</i> | | | | | | | | | | | | |
|---|---|------------------------|--------------------------|------------------------|------------------------|----------------------------|------------------------------------|---|---|---------------------------|----------------|----------------------------------|---------------------|
| | <i>Share capital</i> | <i>Treasury shares</i> | <i>Statutory reserve</i> | <i>General reserve</i> | <i>Special reserve</i> | <i>Mudaraba Instrument</i> | <i>Mudaraba Instrument reserve</i> | <i>Cumulative changes in fair value</i> | <i>Foreign currency translation reserve</i> | <i>Accumulated losses</i> | <i>Total</i> | <i>Non-controlling interests</i> | <i>Total equity</i> |
| | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> |
| At 1 January 2017 | 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 |
| Profit for the period | - | - | - | - | - | - | - | - | - | 10,199 | 10,199 | 5,319 | 15,518 |
| Other comprehensive income for the period | - | - | - | - | - | - | - | - | 8,065 | - | 8,065 | - | 8,065 |
| Total comprehensive income for the period | - | - | - | - | - | - | - | - | 8,065 | 10,199 | 18,264 | 5,319 | 23,583 |
| Directors' fee paid | - | - | - | - | - | - | - | - | - | (2,250) | (2,250) | - | (2,250) |
| At 30 June 2017 | 1,500,000 | (93,048) | 117,690 | 117,690 | 99,265 | 231,128 | 868,947 | 1,663 | (326,626) | (1,008,139) | 1,508,570 | 124,455 | 1,633,025 |

The attached notes 1 to 13 form part of these interim condensed 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 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 interim condensed consolidated financial statements of the Amlak Finance PJSC and its subsidiaries (the “Group”) are prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2017 except for the adoption of the new and amended IFRS and IFRIC interpretations which became effective as of 1 January 2018. The adoption of these standards and interpretations did not have an impact on the financial position or performance of the Group during the current period, except as mentioned in note 2.2 and 2.3.

The interim condensed consolidated financial statements do not include all the information or disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2017. In addition, results for the period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

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.

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

Issued and effective for accounting periods beginning on 1 January 2018

The Group has consistently applied the accounting policies as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following accounting policies which are applicable from 1 January 2018:

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

IFRS 9 - Financial Instruments (continued)

(i) Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment:

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

Assessment whether contractual cash flows are solely payments of principal and profit:

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

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

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition:

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

IFRS 9 - Financial Instruments (continued)

(ii) Impairment

The Group recognises allowance for impairment for expected credit losses (ECL) on financial assets measured at amortised cost and commitments issued.

The Group measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

Measurement of ECL:

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn finance commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

Credit-impaired financial assets:

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-off:

Assets carried at amortised cost and debt securities at FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore not comparable to the information presented for period under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation or previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

Further information and details on the changes and implications resulting from the adoption of IFRS 9 are disclosed in note 2.3.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

IFRS 9 - Financial Instruments (continued)

(iii) Transition (continued)

Classification of financial assets on the date of initial application of IFRS 9

Except for the financial statement caption listed in the table below there have been no changes in the classification of assets and liabilities on application of IFRS 9 as at 1 January 2018.

| | <i>Classification under IAS 39 (31 December 2017)</i> | | | <i>Classification under IFRS 9 (1 January 2018)</i> | | |
|--|---|-------------------------------|----------------|---|---------------|------------------|
| | <i>Financial assets and receivables</i> | <i>Available for sale</i> | <i>Balance</i> | <i>Amortised cost</i> | <i>FVOCI</i> | <i>Balance</i> |
| Cash and balances with banks | 673,015 | - | 673,015 | 673,015 | - | 673,015 |
| Islamic financing and investing assets | 3,084,983 | - | 3,084,983 | 3,089,299 | - | 3,089,299 |
| Investment securities | - | 12,387 | 12,387 | - | 12,387 | 12,387 |
| Other assets (excluding prepayment) | 125,723 | - | 125,723 | 125,723 | - | 125,723 |

The following table reconciles the closing balance of financial assets under IAS 39 to the opening balance of financial assets under IFRS 9 on 1 January 2018.

| | <i>31 December 2017 (IAS 39)</i> | <i>Re-measurement impairment</i> | <i>1 January 2018 (IFRS 9)</i> |
|---|--------------------------------------|--------------------------------------|------------------------------------|
| Cash and balances with banks | 673,015 | - | 673,015 |
| Investment securities: Equity securities AFS / FVOCI | 12,387 | - | 12,387 |
| Amortised cost: Islamic financing and investing assets | 3,084,983 | 4,316 | 3,089,299 |
| Other assets excluding prepayments | 125,723 | - | 125,723 |
| Total | 3,896,108 | 4,316 | 3,900,424 |

Following the adoption of IFRS 9 by an associate, AED 9,725 thousand, representing the Group share in an associate, was reported by the Group in accumulated losses during the six month period ended 30 June 2018 which is consistent with the Group accounting policies.

Financial instruments: disclosures (IFRS 7)

The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model and transition provisions.

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.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

Issued but not yet effective for accounting periods beginning on or after 1 January 2018

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.

Changes in estimates and judgements

The preparation of condensed consolidated interim financial statements requires management to make judgement, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The Group has consistently applied the estimates and judgements as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following estimates and judgements which are applicable from 1 January 2018.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognized in the condensed consolidated interim financial statements of the period ended 31 March 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact calculation of expected credit loss. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group 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 Group 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 Group's existing risk management processes.

The assessment of significant increases in credit risk will be performed at least 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) We have established thresholds for significant increases in credit risk relative to initial recognition.
- (2) Additional qualitative reviews is 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 is similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS9 Methodology (continued)

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

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider 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 is require significant judgment.

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) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation has forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

The base case scenario is based on macroeconomic forecasts published by reliable third parties. Upside and downside scenarios is be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios is occur on at least an annual basis and more frequently if conditions warrant.

Scenarios is probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered is applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default:

The definition of default used in the measurement of expected credit losses 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.

Governance:

In addition to the existing risk management framework, the Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economics and is responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in our consolidated financial statements.

2.3 RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

Amounts arising from ECL

Allowance for impairment

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment on Islamic Financing and Investing Assets as a result of the adoption of IFRS 9: Financial instruments.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

2 ACCOUNTING POLICIES (continued)

2.3 RISK MANAGEMENT (continued)

Islamic Financing and investing assets and undrawn irrevocable commitments

| | <i>Unaudited 30 June 2018 AED'000 ECL</i> | <i>Unaudited 30 June 2017 AED'000</i> |
|--|---|---|
| Balance at 01 January (as per IAS 39) | 637,109 | 675,262 |
| Opening adjustment under IFRS 9* | (4,316) | - |
| Balance at 01 January (adjusted opening as per IFRS 9) | 632,793 | 675,262 |
| Allowances for impairment made during the period | 7,483 | 1,061 |
| Write back / recoveries made during the period | (3,678) | (2,511) |
| Amounts written off during the period | 19,364 | 8,589 |
| Exchange and other adjustments | (17,690) | (26,133) |
| Closing balance | 638,272 | 656,268 |

*Impact of adopting IFRS 9 is exclusively from general reserve which has been credited to general impairment reserve in the statement of changes in equity as per CBUAE final guidance note on IFRS 9 issued on 30 April 2018.

3 BASIC AND DILUTED PROFIT PER SHARE

| | <i>Three months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
|--|---------------------------------------|-------------|-------------------------------------|-------------|
| | <i>2018</i> | <i>2017</i> | <i>2018</i> | <i>2017</i> |
| Profit for the period attributable to equity holders of the parent (AED'000) (net of Director's fee) | 2,268 | 2,387 | 8,137 | 7,949 |
| Weighted average number of shares for basic EPS (in thousands)* | 1,475,000 | 1,475,000 | 1,475,000 | 1,475,000 |
| Effect of dilution: Mudaraba Instrument | 1,511,857 | 1,647,225 | 1,511,857 | 1,647,225 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 2,986,857 | 3,122,225 | 2,986,857 | 3,122,225 |
| Basic profit per share (AED) | 0.002 | 0.002 | 0.006 | 0.005 |
| Diluted profit per share (AED) | 0.001 | 0.001 | 0.003 | 0.003 |

*The weighted average numbers of shares for basic EPS were reduced by the purchase of own shares during the year 2008.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

4 CASH AND BALANCES WITH BANKS

| | 30 June 2018 AED'000 (Unaudited) | 31 December 2017 AED'000 (Audited) |
|--|---|---|
| Cash on hand | 58 | 59 |
| Balances with banks | 85,198 | 435,839 |
| Deposits with banks | 159,894 | 237,117 |
| Cash and balances with banks | 245,150 | 673,015 |
| Less: Restricted cash and deposits | | |
| Regulatory deposit with no maturity (note 4.1) | (35,000) | (35,000) |
| Restricted cash (note 4.2) | (133,788) | (205,453) |
| Cash and cash equivalents | 76,362 | 432,562 |

- 4.1 Represents deposits with a local bank under lien to the Central Bank of UAE in accordance with Central Bank regulations for licensing.
- 4.2 At period ended 30 June 2018, the Group reported AED 134 million (31 December 2017: AED 205 million) of restricted cash. This represents the Group's share of the cash held and controlled by a joint venture (Note 8).
- 4.3 The Company and certain of its subsidiaries registered in UAE have pledged their bank accounts in favour of the security agent.

5 INVESTMENT SECURITIES

| | <i>UAE</i> | | <i>International</i> | | <i>Total</i> | |
|------------------|---|---|---|---|---|---|
| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> |
| Equities (FVOCI) | 4,078 | - | 7,717 | - | 11,795 | - |
| Equities (AFS) | - | - | - | 12,387 | - | 12,387 |

30 June 2018 (Unaudited)

| | <i>Investments carried at fair value</i> | | | |
|----------|--|----------------------------|----------------------------|----------------------------|
| | <i>Total AED'000</i> | <i>Level 1 AED'000</i> | <i>Level 2 AED'000</i> | <i>Level 3 AED'000</i> |
| Equities | 11,795 | 4,078 | - | 7,717 |
| | 11,795 | 4,078 | - | 7,717 |

31 December 2017 (Audited)

| | <i>Investments carried at fair value</i> | | | |
|----------------|--|----------------------------|----------------------------|----------------------------|
| | <i>Total AED'000</i> | <i>Level 1 AED'000</i> | <i>Level 2 AED'000</i> | <i>Level 3 AED'000</i> |
| Equities (AFS) | 12,387 | 4,670 | - | 7,717 |
| | 12,387 | 4,670 | - | 7,717 |

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

5 INVESTMENT SECURITIES (continued)

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

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

| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> |
|----------------------|---|---|
| Balance at 1 January | 7,717 | 7,688 |
| Exchange movement | - | 29 |
| | <u>7,717</u> | <u>7,717</u> |

6 ADVANCES FOR INVESTMENT PROPERTIES

| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> |
|------------------------------------|---|---|
| Advances for investment properties | 322,818 | 322,818 |
| | <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 commenced arbitration in 2013 with one developer to facilitate recovery of advances paid of AED 780 million with a carrying value of AED 293 million (31 December 2017: AED 293 million), the outcome of which management believes will have no negative impact on the carrying value of advances for investment properties at period end (see note 12).

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 2017: 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. The Group has not yet obtained title to the properties and is committed to pay an additional AED 23 million (31 December 2017: AED 23 million) in accordance with the agreement with the seller of one of the real estate projects.

7 INVESTMENT PROPERTIES

| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> |
|--|---|---|
| At 1 January | 1,821,064 | 1,623,096 |
| Addition during the period / year | 139,490 | 143,109 |
| Disposal during the period / year | (19,919) | (24,282) |
| Fair value gain on investment properties | 15,044 | 69,530 |
| Foreign exchange fluctuation | (418) | 9,611 |
| | <u>1,955,261</u> | <u>1,821,064</u> |

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

7 INVESTMENT PROPERTIES (continued)

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 quarter 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 30 June 2018 include a plot of land and two residential units in Egypt owned by the Group's subsidiaries amounting to AED 176 million (31 December 2017: AED 169 million). All other investment properties are located within the UAE. The carrying values also include foreign exchange loss amounting to AED 249 million (31 December 2017: AED 248 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 period.

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

As at 30 June 2018, investment properties having fair value of AED 1,033 million (31 December 2017: AED 985 million) are mortgaged / assigned in favour of the security agent as part of the restructuring.

| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>30 June 2017 AED'000 (Unaudited)</i> |
|--|---|---|
| Rental income derived from investment properties | 32,087 | 30,159 |
| Direct operating expenses (including repairs and maintenance) generating rental income | (6,949) | (7,799) |
| Profit arising from investment properties carried at fair value | 25,138 | 22,360 |

8 PROPERTIES UNDER DEVELOPMENT

| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> |
|--|---|---|
| At 1 January | 212,849 | 220,679 |
| Cost of sale of properties under development | (3,850) | (21,670) |
| Additions for construction costs incurred | 1,990 | 13,840 |
| | 210,989 | 212,849 |

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 of 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 30 June 2018 is AED 134 million (31 December 2017: AED 205 million).

8 PROPERTIES UNDER DEVELOPMENT (continued)

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 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 is recorded at the time of transfer of the control of the land and the revenue relating to the building of infrastructure is 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 obligations on the basis of their respective fair values.

As at 30 June 2018, properties under development are assigned as security in favour of the security agent as part of the restructuring.

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>30 June 2018 AED'000 (Unaudited)</i> | <i>31 December 2017 AED'000 (Audited)</i> |
|--|--|--|
| Properties under development | 210,989 | 212,849 |
| Cash and balances with banks | 133,788 | 205,453 |
| Other assets - receivables | 20,353 | 851 |
| Other liabilities | (3,588) | (10,356) |
| Net Assets | <u>361,542</u> | <u>408,797</u> |
| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>30 June 2017 AED'000 (Unaudited)</i> |
| Sale of properties under development | 55,102 | 32,943 |
| Cost of sale of properties under development | (3,850) | (13,886) |
| Operating expenses | (376) | (1,352) |
| Income on deposits | 3,173 | 2,722 |
| Profit for the period | <u>54,049</u> | <u>20,427</u> |

Revenue for the period comprises AED 40 million (30 June 2017: AED 9 million) following satisfaction of transfer of control of land performance obligations and AED 15 million (30 June 2017: AED 24 million) following the infrastructure development has been 100% completed by the contractor and all major contingencies were waived during the period ended 30 June 2018. 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.

9 INVESTMENT DEPOSITS AND OTHER ISLAMIC FINANCING

| | <i>Profit rate</i> | 30 June 2018 AED'000 (Unaudited) | 31 December 2017 AED'000 (Audited) |
|--|--------------------|---|---|
| Murabaha | 2% | 207,228 | 229,296 |
| Wakala | 4% | 128,375 | 199,695 |
| Others | 4% | 294,250 | 457,722 |
| Purchase price payable | 2% | 4,011,780 | 4,439,015 |
| | | 4,641,633 | 5,325,728 |
| Amortised fair value adjustment (note 9.1) | | (474,497) | (533,691) |
| | | 4,167,136 | 4,792,037 |

Investments deposits and other Islamic financing are secured against assignment and mortgages over the Group's investment properties located in UAE (notes 7 and 8), assignment of insurance, pledge over bank accounts (note 4), 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.

9.1 Amortised fair value adjustment

| | 30 June 2018 AED'000 (Unaudited) | 31 December 2017 AED'000 (Audited) |
|--|---|---|
| At 1 January | 533,691 | 643,704 |
| Amortisation charged for the period / year | (59,194) | (110,013) |
| | 474,497 | 533,691 |

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 restructured fixed obligations at period end is AED 4,642 million (31 December 2017: 5,326 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 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.

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 30 June 2018 was AED 437 million (31 December 2017: AED 377 million) giving a residual fair value gain of AED 474 million as at 30 June 2018 (31 December 2017: AED 534 million) to be amortised over the remaining repayment period.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

9 INVESTMENT DEPOSITS AND OTHER ISLAMIC FINANCING (continued)

9.1 Amortised fair value adjustment (continued)

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.

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.

An advance payment of AED 684 million representing 10 future scheduled monthly installments till December 2018 was paid on 25 January 2018.

10 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 investment).

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 the six months period ended 30 June are as follows:

30 June 2018 (Unaudited):

| | <i>Real Estate Finance AED'000</i> | <i>Real Estate Investment AED'000</i> | <i>Corporate Finance Investment AED'000</i> | <i>Total AED'000</i> |
|--|--|---|---|--------------------------|
| Operating income | 86,472 | 109,836 | 6,748 | 203,056 |
| Reversal / (allowances) for impairment | (24,314) | 924 | (1,938) | (25,328) |
| Amortisation of initial fair value gain | (29,445) | (24,908) | (4,841) | (59,194) |
| Expenses (including allocated expenses) | (38,532) | (17,289) | (4,897) | (60,718) |
| Cost of sale of properties under development | - | (3,850) | - | (3,850) |
| Share of results of an associate | - | - | 12,397 | 12,397 |
| Distribution to financiers / investors | (23,817) | (23,722) | (7,655) | (55,194) |
| Segment results | <u>(29,636)</u> | <u>40,991</u> | <u>(186)</u> | <u>11,169</u> |
| Non-controlling interests | | | | (782) |
| | | | | <u>10,387</u> |

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

10 SEGMENTAL INFORMATION (continued)

30 June 2017 (Unaudited):

| | <i>Real Estate Finance AED'000</i> | <i>Real Estate Investment AED'000</i> | <i>Corporate Finance Investment AED'000</i> | <i>Total AED'000</i> |
|--|--|---|---|--------------------------|
| Operating income | 119,328 | 58,139 | 6,415 | 183,882 |
| Reversal / (allowances) for impairment | 8,718 | 734 | (1,997) | 7,455 |
| Amortisation of initial fair value gain | (26,089) | (23,687) | (4,726) | (54,502) |
| Expenses (including allocated expenses) | (36,285) | (16,799) | (3,767) | (56,851) |
| Cost of sale of properties under development | - | (13,886) | - | (13,886) |
| Share of results of an associate | - | - | 11,060 | 11,060 |
| Distribution to financiers / investors | (28,830) | (26,122) | (6,688) | (61,640) |
| Segment results | <u>36,842</u> | <u>(21,621)</u> | <u>297</u> | <u>15,518</u> |
| Non-controlling interests | | | | <u>(5,319)</u> |
| | | | | <u>10,199</u> |

Segment assets and liabilities:

The following table presents segment assets and liabilities of the Group as at 30 June 2018 and 31 December 2017:

30 June 2018 (Unaudited):

| | <i>Real Estate Finance AED'000</i> | <i>Real Estate Investment AED'000</i> | <i>Corporate Finance Investment AED'000</i> | <i>Total AED'000</i> |
|---------------------|--|---|---|--------------------------|
| Segment assets | <u>3,553,383</u> | <u>1,956,705</u> | <u>448,196</u> | <u>5,958,284</u> |
| Segment liabilities | <u>1,254,645</u> | <u>2,679,424</u> | <u>466,217</u> | <u>4,400,286</u> |

31 December 2017 (Audited):

| | <i>Real estate Finance AED'000</i> | <i>Real estate Investment AED'000</i> | <i>Corporate Finance Investment AED'000</i> | <i>Total AED'000</i> |
|---------------------|--|---|---|--------------------------|
| Segment assets | <u>4,211,495</u> | <u>1,941,354</u> | <u>426,395</u> | <u>6,579,244</u> |
| Segment liabilities | <u>1,885,362</u> | <u>2,689,584</u> | <u>433,390</u> | <u>5,008,336</u> |

11 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.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

11 RELATED PARTY TRANSACTIONS (continued)

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

30 June 2018 (Unaudited):

| | <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 bank balances | - | - | 10,196 | 10,196 |
| Islamic financing and investing assets | - | 16,529 | 9,654 | 26,183 |
| Available-for-sale investments | - | - | 7,249 | 7,249 |
| Investment deposits | 117,688 | - | 941,789 | 1,059,477 |
| Other assets | - | - | 703 | 703 |
| Other liabilities | 39 | - | 769 | 808 |

31 December 2017 (Audited):

| | <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 | - | - | 113,802 | 113,802 |
| Islamic financing and investing assets | - | 18,268 | 10,915 | 29,183 |
| Available for sale investments | - | - | 7,249 | 7,249 |
| Investment deposits | 130,221 | - | 1,042,085 | 1,172,306 |
| Other assets | - | - | 703 | 703 |
| Other liabilities | 51 | - | 860 | 911 |

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

30 June 2018 (Unaudited)

| | <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 | - | 559 | 102 | 661 |
| Distribution to financiers / investors | 1,200 | - | 9,604 | 10,804 |

30 June 2017 (Unaudited)

| | <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 | - | 762 | 894 | 1,656 |
| Distribution to financiers / investors | 1,309 | - | 10,479 | 11,788 |

Compensation of key management personnel

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

| | <i>30 June 2018 AED'000 (Unaudited)</i> | <i>30 June 2017 AED'000 (Unaudited)</i> |
|-------------------------------|---|---|
| Salaries and other benefits | 7,689 | 7,709 |
| Employee termination benefits | 1,204 | 300 |
| | <u>8,893</u> | <u>8,009</u> |

The Group in their annual general meeting dated 10 April 2018 has approved Directors' fee of AED 2.25 million.

12 COMMITMENTS AND CONTINGENCIES*Commitments*

| | <i>Notes</i> | 30 June 2018 AED'000 (Unaudited) | <i>31 December 2017 AED'000 (Audited)</i> |
|--|--------------|---|---|
| Irrevocable commitments to advance financing | 12.1 | 302,974 | 386,477 |
| Commitments for advances for investment properties | 12.2 | 23,251 | 23,251 |
| Commitments for investment properties | 12.3 | 109,763 | - |
| Commitments against capital expenditure | 12.4 | 1,794 | 970 |
| | | 437,782 | 410,698 |

12.1 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.

12.2 This represents commitments to property developers or sellers in respect of property purchases.

12.3 This represents commitments to property developers in respect of development of investment property.

12.4 This represents commitment towards implementation of IT project.

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 3 million (31 December 2017: AED 3 million) has been made.
- b) The developer against which the Company commenced arbitration in 2013 as detailed in note 6 has in turn also filed an arbitration case against the Group during the year ended 31 December 2017 amounting to AED 669 million to recover purported losses. Based on the advice received from third party legal counsel, the Company has concluded it is unlikely that the counterparty will be successful with this action and hence no provision has been recorded in the interim combined consolidated financial statements for the period ended 30 June 2018.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

13 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity analysis of assets, liabilities and off balance sheet items is 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 period end.

At 30 June 2018 (Unaudited)

| | <i>Up to 1 year</i> | | | <i>Total up to 1 year AED'000</i> | <i>1 year to 5 years AED'000</i> | <i>Over 5 years AED'000</i> | <i>Items with no maturity AED'000</i> | <i>Total AED'000</i> |
|---|---|---|---|---|--|-------------------------------------|---|--------------------------|
| | <i>Less than 3 months AED'000</i> | <i>3 months to 6 months AED'000</i> | <i>6 months to 1 year AED'000</i> | | | | | |
| Assets | | | | | | | | |
| Cash and balances with banks | 76,260 | 102 | - | 76,362 | 133,788 | - | 35,000 | 245,150 |
| Islamic financing and investing assets | 346,590 | 45,376 | 88,259 | 480,225 | 854,913 | 1,477,329 | - | 2,812,467 |
| Investment securities | - | - | - | - | - | - | 11,795 | 11,795 |
| Advance for investment properties | - | - | - | - | 30,036 | 292,782 | - | 322,818 |
| Investment properties | - | - | - | - | 1,260,207 | 695,054 | - | 1,955,261 |
| Properties under development | - | - | - | - | 210,989 | - | - | 210,989 |
| Investments in an associate | - | - | - | - | - | - | 288,712 | 288,712 |
| Other assets | 57,404 | 5,365 | 11,205 | 73,974 | 20,353 | - | - | 94,327 |
| Furniture, fixture and office equipment | - | - | - | - | - | - | 16,765 | 16,765 |
| Total assets | 480,254 | 50,843 | 99,464 | 630,561 | 2,510,286 | 2,465,165 | 352,272 | 5,958,284 |
| Liabilities | | | | | | | | |
| Investment deposits and other Islamic financing | - | - | 102,670 | 102,670 | 2,175,768 | 1,888,698 | - | 4,167,136 |
| Term Islamic financing | 2,621 | 2,621 | 5,242 | 10,484 | 46,993 | 42,615 | - | 100,092 |
| Employees' end of service benefits | - | - | - | - | - | - | 5,835 | 5,835 |
| Other liabilities | 113,070 | 4,170 | 6,499 | 123,739 | 3,484 | - | - | 127,223 |
| Total liabilities | 115,691 | 6,791 | 114,411 | 236,893 | 2,226,245 | 1,931,313 | 5,835 | 4,400,286 |
| Commitments | 300,801 | 235 | 3,733 | 304,769 | 133,013 | - | - | 437,782 |
| Net liquidity gap | 63,762 | 43,817 | (18,680) | 88,899 | 151,028 | 533,852 | 346,437 | 1,120,216 |
| Cumulative net liquidity gap | 63,762 | 107,579 | 88,899 | 88,899 | 239,927 | 773,779 | 1,120,216 | 1,120,216 |

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018 (Unaudited)

13 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

At 31 December 2017

| | <i>Up to 1 year</i> | | | <i>Total up to 1 year AED'000</i> | <i>1 year to 5 years AED'000</i> | <i>Over 5 years AED'000</i> | <i>Items with no maturity AED'000</i> | <i>Total AED'000</i> |
|---|---|---|---|---|--|-------------------------------------|---|--------------------------|
| | <i>Less than 3 months AED'000</i> | <i>3 months to 6 months AED'000</i> | <i>6 months to 1 year AED'000</i> | | | | | |
| Assets | | | | | | | | |
| Cash and balances with banks | 430,403 | 2,159 | - | 432,562 | 205,453 | - | 35,000 | 673,015 |
| Islamic financing and investing assets | 663,413 | 57,335 | 85,318 | 806,066 | 662,782 | 1,616,135 | - | 3,084,983 |
| Investment securities | - | - | - | - | - | - | 12,387 | 12,387 |
| Advance for investment properties | - | - | - | - | 30,036 | 292,782 | - | 322,818 |
| Investment properties | - | - | - | - | 1,121,691 | 699,373 | - | 1,821,064 |
| Properties under development | - | - | - | - | 212,849 | - | - | 212,849 |
| Investment in an associate | - | - | - | - | - | - | 302,567 | 302,567 |
| Other assets | 122,193 | 2,864 | 6,594 | 131,651 | 838 | - | - | 132,489 |
| Furniture, fixture and office equipment | - | - | - | - | - | - | 17,072 | 17,072 |
| Total assets | 1,216,009 | 62,358 | 91,912 | 1,370,279 | 2,233,649 | 2,608,290 | 367,026 | 6,579,244 |
| Liabilities | | | | | | | | |
| Investment deposits and other Islamic financing | 68,406 | 205,218 | 410,437 | 684,061 | 2,153,547 | 1,954,429 | - | 4,792,037 |
| Term Islamic financing | 1,158 | 1,157 | 2,314 | 4,629 | 22,948 | 38,559 | - | 66,136 |
| Employees' end of service benefits | - | - | - | - | - | - | 6,551 | 6,551 |
| Other liabilities | 121,733 | 3,383 | 7,609 | 132,725 | 10,887 | - | - | 143,612 |
| Total liabilities | 191,297 | 209,758 | 420,360 | 821,415 | 2,187,382 | 1,992,988 | 6,551 | 5,008,336 |
| Commitments | 381,919 | 3,432 | 2,097 | 387,448 | 23,250 | - | - | 410,698 |
| Net liquidity gap | 642,793 | (150,832) | (330,545) | 161,416 | 23,017 | 615,302 | 360,475 | 1,160,210 |
| Cumulative net liquidity gap | 642,793 | 491,961 | 161,416 | 161,416 | 184,433 | 799,735 | 1,160,210 | 1,160,210 |