EGYPTIAN MORTGAGE REFINANCE COMPANY S.A.E
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
TOGETHER WITH AUDITOR'S REPORT

EGYPTIAN MORTGAGE REFINANCE COMPANY S.A.E
AUDITED FINANCIAL STATEMENTS
For the YEAR ENDED 31 DECEMBER 2016

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Building a better working world

Allied for Accounting & Auditing
Ragheb, Hamouda, Istanbouli, Tageldeen & El-Kilany
P.O. Box 20 Kattameya
Rama Tower
Ring Road, Zone #10A
Kattameya, Cairo, Egypt

Tel: +202 2726 0260
Fax: +202 2726 0100
Cairo.office@eg.ey.com
ey.com/mena

Translation of Auditor's report
Originally issued in Arabic

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

Report on the Financial Statements

We have audited the accompanying financial statements of **Egyptian Mortgage Refinance Company (S.A.E)**, represented in the statement of financial position as of 31 December 2016, and the related statements of profit or loss, comprehensive income, changes in equity and cash flows for the year ended on 31 December 2016, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the Company's Management, as Management is responsible for the preparation and fair presentation of the financial statements in accordance with Egyptian Accounting Standards and applicable Egyptian laws. Management responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Egyptian Standards on Auditing and applicable Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by management, and evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above, gives a true and fair view, in all material respects, of the financial position of **Egyptian Mortgage Refinance Company (S.A.E)** as of 31 December 2016, and of its financial performance and its cash flows for the year ended on 31 December 2016 in accordance with Egyptian Accounting Standards and the related applicable Egyptian laws and regulations.

Report on Other Legal and Regulatory Requirements

The Company maintains proper accounting records that comply with the laws and the Company's articles of association and the financial statements agree with the Company's records.

The financial information included in the Board of Directors' Report prepared in accordance with Law No. 159 of 1981 and its executive regulation, is in agreement with the books of the Company insofar as such information is recorded therein

Cairo: 12 April 2017

Auditor

Allied for Accounting & Auditing
A Member of
Ernst & Young Global

Nabil A. Istanbouli
EFSAA FESA
EFSAA (71)
RAA (5947)

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	31 December 2016 EGP	31 December 2015 EGP
Assets			
Cash on hand and at banks	(3)	**36,023,251**	15,540,043
Investments in treasury bills (Net)	(4)	**48,125,139**	45,182,667
Mortgage refinance loans	(5)	**574,872,436**	557,630,841
Financial investment held to maturity	(6)	**10,000,000**	10,000,000
Prepayments and other debit balances	(8)	**4,509,081**	3,362,014
Intangible assets	(9)	**284,082**	479,760
Fixed assets	(10)	**1,309,546**	1,263,785
Total assets		**675,123,535**	633,459,110
Liabilities and equity			
Liabilities			
Accrued expenses and other credit balances	(11)	**5,714,181**	5,046,672
Income tax payable	(23)	**8,977,093**	8,328,780
Term loans	(16)	**175,958,712**	185,369,414
Deferred tax liabilities	(22)	**4,228**	16,312
Total liabilities		**190,654,214**	198,761,178
Equity			
Paid up capital	(12)	**369,542,000**	363,542,000
Treasury shares		**-**	(23,180,249)
Legal reserve	(13)	**23,525,639**	19,933,991
Retained earnings		**60,239,245**	47,425,153
Profits for the year		**31,162,437**	26,977,037
Total equity		**484,469,321**	434,697,932
Total liabilities and equity		**675,123,535**	633,459,110

Auditor	Chief Financial Officer	Executive Director	Chairman

- The accompanying notes from (1) to (24) are an integral part of these financial statements.
- Auditor's report attached.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	31 December 2016 EGP	31 December 2015 EGP
Interest income and commissions on mortgage refinance loans	(24)	**65,728,113**	59,895,658
Interest income on treasury bills		**5,709,140**	4,838,578
Interest income on time deposits and current accounts		**1,541,600**	886,410
Interest income on financial investments held to maturity		**1,255,048**	1,198,402
TOTAL REVENUES		**74,233,901**	66,819,048
General and administrative expenses	(14)	**(14,638,320)**	(13,470,211)
Depreciation and amortization	(9-10)	**(796,429)**	(788,589)
Finance expenses	(15)	**(18,327,206)**	(17,506,470)
(Loss) on disposal of fixed assets		**-**	(3,612)
Board of Directors members' allowance		**(344,500)**	(379,000)
PROFITS BEFORE INCOME TAXES		**40,127,446**	34,671,165
Current income tax	(23)	**(8,977,093)**	(8,328,780)
Deferred tax income		**12,084**	634,652
PROFITS FOR THE YEAR		**31,162,437**	26,977,037

-The accompanying notes from (1) to (24) are an integral part of these financial statements.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	31 December 2016 EGP	31 December 2015 EGP
Profits for the year	**31,162,437**	26,977,037
Other comprehensive income	**-**	-
TOTAL COMPREHENSIVE INCOME	**31,162,437**	26,977,037

-The accompanying notes from (1) to (24) are an integral part of these financial statements.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Paid up capital EGP	Amounts paid under capital increase EGP	Treasury Shares EGP	Legal reserve EGP	Retained earnings EGP	Profits for the Year EGP	Total EGP
Balance as of 1 January 2015	363,542,000	-	-	18,693,890	35,644,191	24,802,025	442,682,106
Purchased treasury shares	-	-	(23,180,249)	-	-	-	(23,180,249)
Transferred to retained earnings & legal reserve	-	-	-	1,240,101	11,780,962	(13,021,063)	-
Dividends declared and paid	-	-	-	-	-	(11,780,962)	(11,780,962)
Total comprehensive income	-	-	-	-	-	26,977,037	26,977,037
Balance as of 31 December 2015	**363,542,000**	**-**	**(23,180,249)**	**19,933,991**	**47,425,153**	**26,977,037**	**434,697,932**
Balance as of 1 January 2016	363,542,000	-	(23,180,249)	19,933,991	47,425,153	26,977,037	434,697,932
Treasury shares sales (Note 12)	-	-	23,180,249	580,646	-	-	23,760,895
Amounts paid under capital increase (Note 12)	-	7,662,150	-	-	-	-	7,662,150
Transferred to paid up capital	6,000,000	(6,000,000)	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	31,162,437	31,162,437
Dividends declared and paid (Note 17)	-	-	-	-	-	(12,814,093)	(12,814,093)
Transferred to retained earnings	-	-	-	-	12,814,092	(12,814,092)	-
Transferred to legal reserve	-	(1,662,150)	-	3,011,002	-	(1,348,852)	-
Balance as of 31 December 2016	**369,542,000**	**-**	**-**	**23,525,639**	**60,239,245**	**31,162,437**	**484,469,321**

-The accompanying notes from (1) to (24) are an integral part of these financial statements.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Note	31 December 2016	31 December 2015
		EGP	EGP
CASH FLOWS FROM OPERATING ACTIVITIES			
Profits before income taxes		40,127,446	34,671,165
Depreciation and amortization	(9-10)	796,429	788,590
Other revenues		-	3,612
		40,923,875	35,463,367
Change in mortgage refinance loans	(5)	(17,241,595)	(27,124,598)
Change in prepayments and other debit balances	(8)	(1,147,067)	230,641
Change in accrued expenses and other credit balances	(11)	667,509	(227,890)
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES		23,202,722	8,341,520
Income tax paid	(23)	(8,328,780)	(10,028,108)
NET CASH FLOWS PROVIDED FROM (USED IN) OPERATING ACTIVITIES		14,873,942	(1,686,588)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from matured treasury bills more than 90 days		(9,369,070)	5,959,367
Payments to acquire fixed assets and intangible assets	(9-10)	(646,512)	(640,588)
NET CASH FLOWS (USED IN) PROVIDED FROM INVESTING ACTIVITIES		(10,015,582)	5,318,779
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts paid under capital increase	(12)	7,662,150	-
Purchase of treasury shares		-	(23,180,249)
Sales of treasury shares	(12)	23,760,895	-
Dividends paid		(12,814,093)	(11,780,962)
Term loan repayment	(16)	(89,557,748)	(18,920,970)
Proceeds from term loans	(16)	80,147,045	28,325,084
NET CASH FLOWS PROVIDED FROM (USED IN) FINANCING ACTIVITIES		9,198,249	(25,557,097)
Net increase (decrease) in cash and cash equivalent during the year		14,056,609	(21,924,906)
Cash and cash equivalent – beginning of the year		60,722,710	82,647,616
CASH AND CASH EQUIVALENT – END OF THE YEAR		74,779,319	60,722,710

For the purpose of preparing the statement of cash flows, the cash and cash equivalent represent the following:

		31 December 2016	31 December 2015
		EGP	EGP
Cash on hand and at banks	(3)	36,023,251	15,540,043
Treasury bills maturing within 90 days	(4)	38,756,068	45,182,667
		74,779,319	60,722,710

-The accompanying notes from (1) to (24) are an integral part of these financial statements.

1 ACTIVITIES

Egyptian Mortgage Refinance Company S.A.E. was established in Egypt under the provisions of companies law No. 159 of 1981 and its executive regulations, capital market law No. 95 of 1992 and its executive regulations and the provisions of Real Estate Finance law No. 148 of 2001 and its executive regulations. The Company was registered under the commercial registry No. 19101 on 5 June 2006.

The main objective of the Company is Real Estate finance activity through refinancing activities in accordance with prescribed regulations. The Company may, for the purpose of achieving its objectives, issue bonds collateralized by its assets. The Company may also participate with other companies of common interest that have similar activities and may merge or acquire them.

The financial statements of Egyptian Mortgage Refinance Company S.A.E for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 11/4/2017.

2 SIGNIFICANT ACCOUNTING POLICIES

2-1 BASIS OF PREPARATION

The financial statements of the Company are prepared in accordance with Egyptian Accounting Standards ("EAS").

The financial statements have been prepared in Egyptian pounds (EGP), which is the Company's functional and presentation currency.

The financial statements have been prepared under the going concern assumption on a historical cost basis.

2-2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The key judgements and estimates that have a significant impact on the financial statement of the Company are discussed below:

Impairment of trade and other receivables
An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Useful lives of fixed assets
The Company's management determines the estimated useful lives of its fixed assets for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Taxes
The Company is subject to income taxes in Egypt. Significant judgment is required to determine the total provision for current and deferred taxes. The Company established provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities in Egypt. The amount of such provision is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Company and the responsible tax authority. Such differences of interpretations may arise on a wide variety of issues depending on the conditions prevailing in Egypt.

2-2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Taxes (continued)
Deferred tax assets are recognised for unused accumulated tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Impairment of non-financial assets
The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

2-3 SIGNIFICANT ACCOUNTING POLICIES

Foreign currencies
Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction.
Monetary assets and liabilities denominated in foreign currencies are retranslated using the exchange rate prevailing at the balance sheet date. All differences are recognized in the statement of income.
Nonmonetary items that are measured at historical cost in foreign currency are translated using the exchange rates prevailing at the dates of the initial recognition.
Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value is determined.

Fixed assets
Fixed assets are stated at historical cost net of accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the fixed assets when that cost is incurred, if the recognition criteria are met. Likewise, when a major improvement is performed, its cost is recognized in the carrying amount of the fixed assets as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of income as incurred.

Depreciation of an asset begins when it is in the location and condition necessary for it to be capable of operating in the manner intended by management , and is computed using the straight-line method according to the estimated useful life of the asset as follows:

	Years
Computers	3-5
Furniture and Fixtures	5
Motor Vehicles	5
Office Equipment	5
Leasehold Improvements	The lease term

Fixed assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset is included in the statement of income when the asset is derecognized.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end.

The Company assesses at each balance sheet date whether there is an indication that fixed assets may be impaired. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the statement of income.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

The Company's intangible assets represent the value of computer software. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits are attributable to it will flow to the Company.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to either finite or indefinite. Intangible assets with finite lives are amortized over the useful life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each fiscal year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

	Years
Computer software	5

Treasury bills and CBE Certificate of Deposits

Treasury bills and CD's are stated at cost. The difference between cost and nominal value represents the unearned interest on these bills and CD's. Treasury bills and CD's are shown in the balance sheet net of unearned interest. Interest is credited to income on an accruals basis, and the unearned interest is reduced by earned interest.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets classified as either held for trading acquired for the purpose of selling in the near term or financial assets designated upon initial recognition at fair value through profit and loss.

Financial assets at fair value through profit or loss are initially recognized at fair value exclusive direct attributable expenses.

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognized in the statement of income.

A gain or loss arising from sale of a financial asset at fair value through profit or loss shall be recognized in the statement of income.

Mortgage refinance loans

Mortgage refinance loans to customers are carried at amortized cost, using effective interest rate method, less allowance for impairment.

2-1 Impairment of assets

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In accordance with the approval obtained from the Egyptian financial supervisory authority (EFSA), no allowance ratios are calculated for the performing mortgage refinance loans portfolio.

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non financial assets

The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the statement of income.

A previously recognized impairment loss is only reversed if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

Revenue recognition:

- **Interest income**

Interest income is recognized as interest accrues using the effective interest method.

When:

- It can be measured accurately.
- Company expects inflow of future economic benefits.

Cash and cash equivalent

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, Bank balances, and short-term deposits, and treasury bills with a remaining maturity of Three months.

Accounts payable

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

Employees' pension benefits

The Company is participating in the social insurance program carried by the Egyptian government for the employees benefit in accordance with the social insurance law no. 79 of 1975 and its amendments, Employees and the employer pay a contribution according to this law of a fixed percentage out of the employee salary.

The Company's obligation regarding this program is limited to its contribution which is recognised in profit or loss according to the accrual basis.

Financial investments held to maturity

Financial investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity.

Held to maturity investments are initially recognized at fair value inclusive direct attributable expenses.

After initial recognition, the held to maturity investments are measured at amortized cost using the effective interest method less impairment. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, impairment is recovered, as well as through the amortization process

Income taxes

Income tax is calculated in accordance with the Egyptian tax law.

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authority.

Deferred income tax

Deferred income tax is recognized using the liability method on temporary differences between the amount attributed to an asset or liability for tax purposes (tax base) and its carrying amount in the balance sheet (accounting base) using the applicable tax rate.

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax (continued)
Deferred tax asset is recognized when it is probable that the asset can be utilized to reduce future taxable profits and the asset is reduced by the portion that will not create future benefit.

Current and deferred tax shall be recognized as income or an expense and included in the statement of income for the year, except to the extent that the tax arises from a transaction or an event which is recognized, in the same or a different year, directly in equity.

Legal reserve
According to the Company's articles of association, 5% of the profits of the year are transferred to the legal reserve until this reserve reaches 50% of the issued capital. The reserve is used upon a decision from the General Assembly meeting based on the proposal of the Board of Directors.

Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at the financial position date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision should be the present value of the expected expenditures required to settle the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance expense.

Borrowings
Borrowings are initially recognized at the value of the consideration received. Amounts maturing within one year are classified as current liabilities, unless the Company has the right to postpone the settlement for a period exceeding one year after the balance sheet date, then the loan balance maturing after one year should be classified as non-current liabilities.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance cost in the statement of income.

Borrowing cost
Borrowing costs are recorded in the statement of income as financing costs.

Expenses
All expenses including general and administrative expenses and other expenses are recognized and charged to the statement of income in the financial year in which these expenses were incurred.

Leases
Lease contracts are classified as operating lease in accordance with the Egyptian laws and regulations where the lease payments are recognized as an expense on a straight line basis over the lease term.

Statement of cash flows
The statement of cash flows is prepared using the indirect method.

Related party transactions
Related parties represent associated companies, major shareholders, directors and key management personnel of the company, entities controlled, jointly controlled or significantly influenced by such parties; The Company consummates transactions with related parties on an arm's length basis subject to the rules, policies and regulations applied in the Company and also in accordance to the company's Articles of Association.

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or the most advantageous market for the asset or liability.

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

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

For assets traded in an active market, fair value is determined by reference to quoted market bid prices.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted assets, fair value is determined by reference to the market value of a similar asset or is based on the expected discounted cash flows.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 – Fair value measurements are those derived from quoted prices in an active market (that are unadjusted) for identical assets or liabilities.
- Level 2 – Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

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

2-4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted this year are consistent with those of the previous year except for the amendments required by the new Egyptian Accounting Standards issued during the year 2015 which is effective for the periods starting on or after 1 January, 2016, disclosed below the most prominent amendments which is applicable to the company and the effects of this new amendments on Financial statements, if any.

EAS (1) revised Presentation of Financial Statements:
The revised standard requires the company to disclose all items of income and expenses that were recognized during the period in two separate statements, statement of profit or loss (statement of income) which disclose all items of income and expenses and statement of Comprehensive income which starts with profit or loss and presents items of other Comprehensive income (Statement of Comprehensive income).
It also requires an additional statement to The Statement of Financial position disclose balances as of the beginning of the first presented comparative period in case of retrospective implementation or change in an accounting policy or reclassification carried out by the company.
The amended standard does not require the presentation of working capital.
The company has prepared the Statement of Comprehensive income and presentation of financial statements according to revised standard and there is no retrospective adjustments that require presenting Statement of Financial position which include beginning balances of the first presented comparative period.

EAS (10) revised Fixed Assets and depreciation:
The revised standard has eliminated the option of using the revaluation model in the subsequent measurement of fixed assets.
The strategic (major) spare parts and stand-by equipment can be classified as fixed assets when the entity expects to use them for more than one period (when the definition of fixed assets applies thereto).
There is no impact for this amendment on company's financial statements.

EAS (14) revised Borrowing Costs:
The revised standard has eliminated previous benchmark treatment that recognised the borrowing cost directly attributable to the acquisition, construction or production of a qualifying asset in the Statement of Profit or Loss. The revised standard requires capitalisation of this cost on qualifying assets.
There is no impact for this amendment on company's financial statements.

EAS (23) revised Intangible Assets:
The revised standard has eliminated the option of using the revaluation model in the subsequent measurement of intangible assets.
There is no impact for this amendment on company's financial statements.

EAS (34) revised Investment Property:
The revised standard has eliminated the option of using the fair value model in the measurement after recognition of the Investment Property. The standard requires disclosing fair value.
There is no impact for this amendment on company's financial statements.

EAS (38) revised Employee Benefits:
<u>Defined benefit plans</u>
The revised standard requires immediate recognition for accumulated actuarial gains and losses in statement comprehensive income. Also, recognition of past service cost as expense at earlier of:
A) When plan amended or curtailed or,
B) When entity execute substantial restructure for its activities, hence the entity recognise related restructuring costs which comprise paying end of service benefits.

EAS (40) financial instruments: Disclosures:
A new EAS (40) Financial instruments "Disclosures" has been issued to include all required disclosures for financial instruments. The company has disclosed required disclosures in the financial statements.

2-4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

EAS (41) Operating segments:
The EAS (33) Segment Reporting has superseded by EAS (41) Operating segment. Accordingly, segment reporting which should be disclosed and the required disclosures basically depends on the information about segment in the way that operating decision maker use. As described in note (3) the company currently has only one operating segment.

EAS (45) Fair Value Measurement:
The new EAS (45) Fair Value measurement has been issued; this standard is applied when other standard requires or permits to measure or disclose the fair value. This standard defines fair value and set the frame to measure fair value in one standard and determines the required disclosure for measurements of fair value. The company disclosed all required discourses according to standards.

3 CASH ON HAND AND AT BANKS

	31 December 2016 EGP	31 December 2015 EGP
Egyptian Pound		
Current accounts	**1,323,251**	5,940,043
Time deposits maturing within Three months	**34,700,000**	9,600,000
	36,023,251	15,540,043

-Time deposits booked at commercial banks in Egypt with an annual average interest rate 9,92%.

4 INVESTMENTS IN TREASURY BILLS

	31 December 2016 LE	31 December 2015 LE
Treasury bills maturing before 30 days	**5,000,000**	33,400,000
Treasury bills maturing after 30 days to 60 days	**-**	12,000,000
Treasury bills maturing after 60 days to 90 days	**35,000,000**	-
Treasury bills maturing after 90 days to 150 days	**10,000,000**	-
	50,000,000	45,400,000
Unearned interest	**(1,874,861)**	(217,333)
	48,125,139	45,182,667

5 MORTGAGE REFINANCE LOANS

The Company has outstanding (92) mortgage refinance loans to (10) customers, as follows:

	Short term	Long term	**Total 31 December 2016**	Total 31 December 2015
	EGP	EGP	**EGP**	EGP
Egyptian Arab Land Bank	1,400,000	6,300,000	**7,700,000**	20,300,000
Taameer Mortgage Finance Company	35,264,026	115,295,112	**150,559,138**	121,237,593
Tamweel Mortgage Finance Company	24,328,102	58,011,113	**82,339,215**	86,961,293
Egyptian Housing Finance Company	9,532,914	13,364,091	**22,897,005**	28,687,431
Sakan Company	5,201,194	19,298,483	**24,499,677**	30,505,750
AlAhly Mortgage Finance Company	1,740,732	5,980,749	**7,721,481**	10,610,737
Amlak Finance and Real Estate Investments	14,765,799	84,448,058	**99,213,857**	66,931,309
Housing And Development Bank	9,050,744	78,030,110	**87,080,854**	90,131,597
National Bank Of Egypt	8,070,589	69,346,176	**77,416,765**	85,487,354
Banque Misr	1,333,333	14,111,111	**15,444,444**	16,777,777
	110,687,433	464,185,003	**574,872,436**	557,630,841

- No past due on mortgage refinance loans on 31 December 2016.
- Contractual interest rates vary from 10.25% to 14.75%.
- There is mortgage refinance loans with floating interest rate by which CBE lending corridor rate – plus 1.75%
- Each loan is secured by first-degree possession mortgage of the mortgage finance portfolio of the borrower.
- The mortgage finance portfolio of each borrower within the year represents more than 110 % of the above loans balances (As per EFSA Regulations) during the year from 1/1/2016 to 31/12/2016
- Facilities are within credit limits approved from concerned authority.

6 FINANCIAL INVESTMENTS HELD TO MATURITY

	31 December 2016	31 December 2015
	EGP	EGP
Egyptian Pound		
Suez Canal Investment Certificates (mature on 12 September 2019 with an annual interest rate 12% till November 2016 & the annual interest increased to be 15,50% paid on Quarterly basis)	**10,000,000**	10,000,000
	10,000,000	10,000,000

7 FAIR VALUE

The company uses the following classification in realizing the fair market value of financial instruments and discloses it as follows:

31 December 2016	**Level (1)**	**Level (2)**	**Level (3)**
Investments in treasury bills	-	**48,125,139**	-
Financial investments held to maturity	-	**10,000,000**	-

31 December 2015	Level (1)	Level (2)	Level (3)
Investments in treasury bills	-	45,182,667	-
Financial investments held to maturity	-	10,000,000	-

8 PREPAYMENTS AND OTHER DEBIT BALANCES

	31 December 2016 EGP	31 December 2015 EGP
Withholding tax on treasury bills	**2,978,010**	2,840,877
Accrued interest income	**124,419**	65,358
Prepaid expenses	**135,143**	234,611
Security deposit	**206,845**	206,845
Employees loans	**6,111**	-
Other debit balances	**32,333**	14,323
Payments under purchasing of intangible assets	**1,026,220**	-
	4,509,081	3,362,014

9 INTANGIBLE ASSETS

	31 December 2016 Computer software EGP	31 December 2015 Computer software EGP
Cost		
At the beginning of the Year	**2,249,676**	1,954,468
Additions during the Year	**-**	295,208
At the end of the Year	**2,249,676**	2,249,676
Accumulated amortization		
At the beginning of the Year	**(1,769,916)**	(1,496,108)
Amortization for the Year	**(195,678)**	(273,808)
At the end of the Year	**(1,965,594)**	(1,769,916)
Net book value		
At the end of the Year	**284,082**	479,760

10 FIXED ASSETS

	Computers EGP	Furniture & fixtures EGP	Motor vehicles EGP	Office equipment EGP	Leasehold improvements EGP	Total EGP
Cost						
As of 1 January 2016	2,424,485	1,314,385	666,900	571,573	956,209	5,933,552
Additions during the year	539,602	38,750	-	29,320	38,840	646,512
As of 31 December 2016	2,964,087	1,353,135	666,900	600,893	995,049	6,580,064
Accumulated depreciation						
As of 1 January 2016	(1,731,593)	(1,121,865)	(432,250)	(429,373)	(954,686)	(4,669,767)
Depreciation for the year	(314,330)	(78,448)	(109,400)	(61,602)	(36,971)	(600,751)
As of 31 December 2016	(2,045,923)	(1,200,313)	(541,650)	(490,975)	(991,657)	(5,270,518)
Net Book Value as of						
31 December 2016	**918,164**	**152,822**	**125,250**	**109,918**	**3,392**	**1,309,546**
31 December 2015	692,892	192,520	234,650	142,200	1,523	1,263,785

- There is no Pledge over the fixed assets.
- The gross carrying amount of fully depreciated fixed assets that are still in use amounted to EGP 5,121,845 as of 31 December 2016 (31 December 2015: EGP 4,645,540).

Fixed Assets during 2015

	Computers EGP	Furniture & fixtures EGP	Motor vehicles EGP	Office equipment EGP	Leasehold improvements EGP	Total EGP
Cost						
As of 1 January 2015	2,208,495	1,268,645	666,900	495,573	956,209	5,595,822
Disposals	(7,650)	-	-	-	-	(7,650)
Additions during the year	223,640	45,740	-	76,000	-	345,380
As of 31 December 2015	2,424,485	1,314,385	666,900	571,573	956,209	5,933,552
Accumulated depreciation						
As of 1 January 2015	(1,471,677)	(1,047,762)	(322,850)	(381,596)	(935,138)	(4,159,023)
Disposals	4,038	-	-	-	-	4,038
Depreciation for the year	(263,954)	(74,103)	(109,400)	(47,777)	(19,548)	(514,782)
As of 31 December 2015	(1,731,593)	(1,121,865)	(432,250)	(429,373)	(954,686)	(4,669,767)
Net Book Value as of						
31 December 2015	**692,892**	**192,520**	**234,650**	**142,200**	**1,523**	**1,263,785**
31 December 2014	736,818	220,883	344,050	113,977	21,071	1,436,799

11 ACCRUED EXPENSES AND OTHER CREDIT BALANCES

	31 December 2016 EGP	31 December 2015 EGP
Accrued interest on term loans	4,580,785	4,744,305
Tax Authority – payroll tax	295,322	124,399
Tax Authority – withholding tax	23,338	3,508
Accrued expenses	148,000	119,606
Accrued EFSA development fees	39,694	34,148
Social Insurance Authority	21,392	15,700
Other credit balances	605,650	5,006
	5,714,181	5,046,672

12 CAPITAL

The Company's authorized capital amounts to LE 640,000,000 whereas the issued and paid up capital amounts to EGP 369,542,000 divided over 369542 shares (306,466 common shares and 63,076 preferred shares of 2 voting rights per each) of EGP 1,000 each and is distributed as follows:

Description	No, of shares Common	Preferred	Value	%
Central Bank of Egypt (founder)	40000	57,076	97,076,000	26.27
National Bank of Egypt (founder)	40000	-	40,000,000	10.82
Mortgage Finance Guarantee and Subsidy Fund (founder)	4000	6000	10,000,000	2.71
Arab Bank	5000	-	5,000,000	1.35
HSBC Bank	18000	-	18,000,000	4.87
Societe Arabe Internationale de Banque	10000	-	10,000,000	2.71
Emirates NBD	2000	-	2,000,000	0.54
Commercial International Bank	5000	-	5,000,000	1.35
Faisal Islamic Bank	4000	-	4,000,000	1.08
Banque Misr	40000	-	40,000,000	10.82
National Bank of Kuwait	4000	-	4,000,000	1.08
Tameer Mortgage Finance Co, (Al Oula)	20000	-	20,000,000	5.41
QNB AlAhly	10000	-	10,000,000	2.71
Kuwait national Bank- Egypt	19000	-	19,000,000	5.14
Blom Bank	2000	-	2,000,000	0.54
Egyptian Housing Finance Company	2000	-	2,000,000	0.54
Misr Iran Bank	5000	-	5,000,000	1.35
Egyptian Gulf Bank	10000	-	10,000,000	2.71
Housing and Development Bank	20000	-	20,000,000	5.41
Ahli United Bank	4000	-	4,000,000	1.08
Egyptian Arab Land Bank	20000	-	20,000,000	5.41
Arab African International Mortgage Finance Company	3923	-	3,923,000	1,06
Tamweel Mortgage Finance Company	2806	-	2,806,000	0.76
United Bank	4000	-	4,000,000	1.08
Amlak for mortgage finance	2000	-	2,000,000	0.54
El Tayseer for Mortgage Finance	2000	-	2,000,000	0.54
El Ahly Mortgage Finance Company	1825	-	1,825,000	0.49
Sakan Mortgage Finance Company	912	-	912,000	0.25
Contact Mortgage Finance Company	5000	-	5,000,000	1.35
	306466	63076	369,542,000	100%

CAPITAL (continued)

- The board of directors decided on 21 September 2016 to increase company's capital by 5000 shares amounted EGP 5,000,000 for **Contact mortgage company**, and per share will be EGP 1282.75 according to the fair value per share (book value on 31 August 2016) according to the report of independent financial consultant issued on 7 September 2016 so that the total paid amount is EGP 6,413,750 including premium of EGP 1,413,750 was added to the legal reserve of the company so the capital become EGP 369,542,000 distributed on 369,542 share (the increase has been registered in commercial register on 19 October 2016)
- The board of directors decided on 9 February 2016 to increase company's capital by EGP 1,000,000 for **Amlak mortgage company**, for EGP 1,248,400 including premium of EGP 248,400 was added to the legal reserve of the company so the capital become EGP 364,542,000 distributed on 364,542 shares in 18 February 2016
- The company sold treasury shares at 18 January 2016 that consist of 19076 preferred stocks divided into 17076 share to the central bank of Egypt & 2000 shares to real estate financing fund with fair value of the share is EGP 1248.4 according to the report of independent financial consultant dated 24 November 2015, the cost of commissions, & financial consultant was EGP 53,583 EGP.

13 LEGAL RESERVE

Legal reserve balance amounting to EGP 23,525,639 as of 31 December 2016 is represented as follows:

1) The transfer of premium on increase in capital of EGP 96,000 resulting from the difference between the par value and amount paid for the issuance of 4,904 new shares, in accordance with the resolution of the Extraordinary General Assembly Meeting on 11 December 2006.

2) The transfer of premium on increase in capital of EGP 923,278 resulting from the difference between the par value and amount paid for the issuance of 19,076 new shares, in accordance with the resolution of the Extraordinary General Assembly Meeting on 13 May 2007.

3) The transfer of premium on increase in capital of EGP 138,900 resulting from the difference between the par value and amount paid for the issuance of 5,000 new shares, in accordance with the resolution of the Extraordinary General Assembly Meeting on 31 March 2008.

4) The transfer of premium on increase in capital of EGP 11,697,317 resulting from the difference between the par value and amount paid for the issuance of 122562 new shares, in accordance with the resolution of the board of directors held on 2 July 2012.

5) The transfer of premium on sales of treasury bills of EGP 580,646 resulting from the difference between the value of purchasing & sales of treasury bills after deducting broker's commission & other related expenses after sales of 19,076 share in 18 January 2016.

6) The transfer of premium on increase in capital of EGP 248,400 resulting from the difference between the par value and amount paid for the issuance of 10,000 new shares on 18 February 2016

7) The transfer of premium on increase in capital of EGP 1,413,750 resulting from the difference between the par value and amount paid for the issuance of 5,000 new shares on October 2016.

8) the transfer of 5% of net income from 2007 to 2015 in accordance with the resolution of the Normal General Assembly Meeting

14 GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2016	31 December 2015
	EGP	EGP
Salaries and wages	**9,939,532**	9,567,603
Premises rent	**1,814,458**	1,512,376
Professional fees	**488,373**	399,073
IT support contracts	**466,736**	427,904
Tax, legal and other consultants	**151,717**	107,274
Cleaning and security	**168,582**	141,526
EFSA development fees	**148,468**	133,638
Insurance	**74,568**	99,945
Employees training	**210,330**	52,473
Stationary and printing materials	**37,487**	25,891
Repair & maintenance	**127,619**	83,420
Electricity	**81,907**	55,194
Telephone and mobile	**83,467**	70,289
Internet and ADSL	**69,687**	43,484
Entertainment, meals and public relations	**56,692**	42,283
AGM & EGM Meeting Expenses	**15,548**	18,652
Legal expenses	**31,890**	16,212
Travel and transportation	**24,985**	2,861
Donations	**500,000**	500,000
Other expenses	**146,274**	170,113
	14,638,320	13,470,211

15 FINANCE EXPENSES

	31 December 2016	31 December 2015
	EGP	EGP
Interest on Overdraft Account (note 24)	**95**	102,212
Interest on term loans	**18,201,331**	17,347,208
Bank charges	**125,780**	57,050
	18,327,206	17,506,470

16 TERM LOANS

	Non-Current	Current	Total 31 December 2016	Total 31 December 2015
	EGP	EGP	EGP	EGP
Loan from Ministry of International Cooperation	130,083,660	15,293,880	**145,377,540**	160,671,420
Medium term loans	22,387,448	8,193,724	**30,581,172**	24,697,994
	152,471,108	**23,487,604**	**175,958,712**	185,369,414

A) A loan agreement has been made between the government of the Arab Republic of Egypt (the borrower) and "International Bank for Reconstruction and Development" (the lender) by which the bank agrees to lend the borrower an amount of EGP 214,200,000 to assist in financing the project as described in note (17) to the financial statements.

A commitment charge is payable at 0.75% per annum on the un withdrawn loan balance, less waiver of a portion of such charge as may be determined by the World bank. Net commitment charge, after waiver is 0.25%.

A front-end fee is payable at 0.25% of the loan amount amounted to EGP 535,500 which was fully incurred during 2007.

The loan will be repaid on 15 March and 15 September of each year starting from 15 September 2012 up to 15 March 2026.

The loan amount repaid during the year ended 31 December 2016 amounted to EGP 15,293,880.

The loan balance as of 31 December 2016 amounted to EGP 145,377,540 (31 December 2015: EGP 160,671,420)

B) An agreement was made between Egyptian Mortgage Refinance Company (the borrower) and United Bank (the lender) whereby the bank agreed to grant the Company credit facilities with ceiling amount of EGP 93,000,000 as follow:

- Amount of EGP 3,000,000 as short-term loans (over draft).
- Amount of EGP 90,000,000 as medium term loans (3 years).

The loans carry an interest rate of Central Bank of Egypt – Med corridor lending in addition to 1% including a commission on highest debit balance valid to be withdrawn from April, 1st 2015 to September, 30th 2017.

-The loan amount repaid during the year ended 31 December 2016 amounted to EGP 89,557,747 (represents conciliation of medium term loans & payment of installment during the year).

C) An agreement was made between Egyptian Mortgage Refinance Company (the borrower) Egyptian Arab Land Bank (the lender) whereby the bank agreed to grant the Company credit facilities with ceiling amount of EGP 80,000,000 as follow:

- Amount of EGP 40,000,000 as medium term loans with interest rate of Central Bank of Egypt – Corridor lending in addition to 1% (5 years).
- Amount of EGP 40,000,000 as long-term loans with interest rate of Central Bank of Egypt – Corridor lending in addition to 1% (10 years).

The facility will valid from December 7th, 2016 to December 6th, 2017.

The Company credit facilities include the value of medium term contract amounted EGP 15,000,000 with interest rate of 13.75 % for five years as one time only.

The medium term loans balance as of 31 December 2016 amounted to EGP 30,581,172 as follow:

-Loan of United Bank amounted of EGP 15,581,172.
-Loan of Egyptian Arab Land Bank amounted to EGP 15,000,000.

17 PROJECT AGREEMENT

The Company has entered into a project agreement as "Project Implementing Entity" dated 12 November 2006 with "International Bank for Reconstruction and Development" in connection with the loan agreement described in note (16-A) above.

The Company undertakes that a mortgage loan shall be made to each "Primary Mortgage Lender" (PML) on the terms and conditions acceptable to the bank. The Company shall also exercise its rights in relation to each PML under the respective participation agreement in such a manner as to protect the interest of the bank and the Company and to comply with its obligations under the project agreement.

18 DIVIDENDS

In accordance to the General Assembly meeting held on 4 May 2016, dividends distribution amounted to EGP 12,814,093 was approved and paid as follows:

	31 December 2016 EGP	31 December 2015 EGP
Shareholders' share	**11,532,684**	10,602,866
Employees' share	**1,281,409**	1,178,096
	12,814,093	11,780,962

19 EXPENDITURE COMMITMENTS

	31 December 2016 EGP	31 December 2015 EGP
Operating lease commitments		
Future minimum lease payments:		
Within one year:		
Operating lease commitment	**2,893,420**	1,678,752
Less: Advance payment of operating lease	**-**	-
Net operating lease commitment within one year	**2,893,420**	1,678,752
After one year but not more than five years	**343,200**	2,989,712
More than five years	**-**	-
Total operating lease expenditure contracted for at the balance sheet date	**3,236,620**	4,668,464

20 TAX SITUATIONS

a) Corporate tax

- No tax inspection took place for the Company's records for the years from 2007 till 2008 as they were not part of the sample.
- Currently tax inspection took place for the company's records from 2009 till 2010 resulted tax differences with amount of EGP 1,476,861 and the Company objected on the assessment and the issue was transferred to the Internal Committee and the company objected with deemed tax claim.
- Currently the company is preparing for tax inspection from 2011 till 2012.

b) Salary tax

- The Company's records were inspected for the years from 2006 till 2008. The Company objected on the assessment and the issue was transferred to the Internal Committee. The Internal Committee verdict accepted the Company's objection and the amount owed to the Company. The tax authority approved EGP 4,638 credit balance to be deducted from the next years.
- The Company's records were inspected for the years from 2009 till 2010, the company was notified of an estimated tax of EGP 5,252,383 which was challenged and request for re-examination. The actual re-examination notice resulted in a tax of EGP 377,800 and the company will object to it and transfer it to the internal committees.
- For the Company's records for the years from 2011 till 2014, the examination resulted in a tax of EGP 466,169 which the company will object and transfer to the internal committees.

20 TAX SITUATIONS (CONTINUED)

c) Stamp duty tax

- Tax inspection took place for the Company's records from 2007 till 2013 and resulted in as stamp tax of LE 10,208
- The Company objected on the assessment and the issue was transferred to the Internal Committee and resulted in tax with amount of EGP 3,632 and which was paid by the company in addition to amount of EGP 1,791 delay interest.
- No tax inspection took place for the Company's records for years 2014 and 2015.

d) Taxes on Treasury bills

- Taxes on Treasury Bills are deducted by the banks at maturity and tax amount is transferred to the tax authority (Ministry of finance) on behalf of the company.
- An amount of EGP 1,437,040 was deducted during the years 2009 and 2010 are currently included under other debit balances till final settlement for years 2009 and 2010.
- There is amount of EGP 417,113 included in difference between the paid tax on treasury bills & the calculated amount according to law 91 for the year 2005 & its adjustment.

21 RISK MANAGEMENT

The company is exposed the following risks arising from the usage of financial instruments:-

a) Credit risk
b) Market risk
c) Liquidity risk
d) Capital management risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors of the Parent Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's senior management are responsible for developing and monitoring the risk management policies and report regularly to the Parent Company on their activities.

The Company's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management policies in other areas.

a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk principally from its receivables from customers, due from related parties, other receivables and from its financing activities, including deposits with banks.

Credit risks related to mortgage refinance loans:

The assets exposed to those risk are represented in the amount of execution contract which the company have execute
The Company minimizes its credit losses by following the below procedures:

- Preparing credit studies of its customers (PML) and determining credit worthiness before dealing with them.
- Obtaining adequate guarantees to reduce the risks resulting from insolvency of customers (PML) or banks.
- Monitoring and preparing annual studies on customers (PML) in order to evaluate their financial and credit position.
- Customers (PML) are obligated according to the Mortgage Refinance Loan agreements to replace the defaulted loans in their loan portfolio.

Other financial assets and cash deposits

With respect to credit risk arising from the other financial assets of the Company, which comprise bank balances and cash, financial assets at amortised cost, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets.

Credit risk from balances with banks and financial institutions is managed by local Company's treasury supported by the Parent Company. The Company limits its exposure to credit risk by only placing balances with international banks and local banks of good repute. Given the profile of its bankers, management does not expect any counterparty to fail to meet its obligations

21 RISK MANAGEMENT (continued)

b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as currency risk and interest rate risk, which will affect the Company's income. Financial instruments affected by market risk include interest-bearing loans and borrowings, and deposits. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company does not hold or issue derivative financial instruments.

Exposure to 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 interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's obligations with floating interest rates and interest bearing time deposits.
Interest on financial instruments having floating rates is re-priced at intervals of less than one year.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings).
There is no impact on the Company's equity other than the profit impact stated below.

	31 December 2016		31 December 2015	
	Change in rate	**Effect on profit before tax EGP**	Change in rate	Effect on profit before tax EGP
Financial asset	**+1%**	**163,387**	+1%	190,932
	- 1%	**(163,387)**	- 1%	(190,932)
Financial liability	**+1%**	**305,812**	+1%	246,980
	- 1%	**(305,812)**	- 1%	(246,980)

The interest rates on loans from mortgage refinance loans in Note 5 to the financial statements. Interest rates on loans from financial institutions are disclosed in Note 16 to the financial statements.

Foreign Currency Risk

The foreign currency risk is the risk that the value of the financial assets and liabilities and the related cash inflows and outflows in foreign currencies will fluctuate due to changes in foreign currency exchange rates.

For the purpose of minimizing the risk, the Company considers diversifying its foreign currencies position among different foreign currencies. No foreign currency financial assets or liabilities exist at the date of the financial statements except for Expenditure commitments in foreign currency for leasing head quarter of the company is paid by the equivalent EGP.

	31 December 2016		31 December 2015	
	Change in rate	**Effect on profit before tax EGP**	Change in rate	Effect on profit before tax EGP
USD	**+10%**	**180,355**	+10%	147,361
	-10%	**(180,355)**	-10%	(147,361)

On 3 November 2016, the Central Bank stated that foreign exchange rate is to be determined by supply and demand, adding that the move will be accompanied by 3% rise in interest rates. The central bank indicated that there are no restrictions to foreign deposits and withdrawals, but non-essential goods importers will be subject to foreign limits.

21 RISK MANAGEMENT (continued)

c) Liquidity risk

The cash flows, funding requirements and liquidity of the Company are monitored by local company management supported by the Parent Company. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Company manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company currently has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

Financial liabilities

	Less than 3 Months	**3 to 12 Months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2016					
Term loans	**9,695,371**	**13,792,233**	**98,856,848**	**53,614,260**	**175,958,712**
Accrued expenses and other credit balances	**5,714,181**	**-**	**-**	**-**	**5,714,181**
Income tax payable	**-**	**8,977,093**	**-**	**-**	**8,977,093**
Total undiscounted financial liabilities	**15,409,552**	**22,769,326**	**98,856,848**	**53,614,260**	**190,649,986**

	Less than 3 Months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2015					
Term loans	10,007,364	14,728,211	91,725,699	68,908,140	185,369,414
Accrual expenses and other credit balances	5,046,672	-	-	-	5,046,672
Income tax payable	-	8,328,780	-	-	8,328,780
Total undiscounted financial liabilities	15,054,036	23,056,991	91,725,699	68,908,140	198,744,866

d) Capital risk management

The company manages its capital to ensure that it will continue as a going concern while maximising the return to the shareholders through the optimisation of debt to equity balance. The company's overall strategy remains unchanged .

22 DEFERRED TAX LIABILTIES

	31 December 2016 Liabilities EGP	31 December 2015 Liabilities EGP
Depreciation and amortization	**(4,228)**	(16,312)
Net deferred tax liabilities	**(4,228)**	(16,312)

23 RECONCILIATION OF THE EFFECTIVE INCOME TAX RATE

	31 December 2016 EGP	31 December 2015 EGP
Profits before income tax	40,127,446	34,671,165
Add/subtract the tax effect of below items:		
Other additions - accrued interest income on 2013/2014 treasury bills	-	2,495,688
Other deductions – tax exempted income on Suez Canal IC's	(1,255,048)	(1,198,402)
Payroll tax difference	-	12,913
Loss on fixed assets	-	3,612
Depreciation and amortization	53,704	32,061
Real estate tax	71,757	66,321
Cost of exempted income	555,833	554,441
Board of directors allowance	344,500	379,000
	39,898,192	37,016,799
Income tax rate 22.50%	8,977,093	8,328,780
Effective tax rate	22.37%	24.02%

Income Tax Payable

	31 December 2016 EGP	31 December 2015 EGP
Beginning balance	8,328,780	10,028,108
Accrued during the year	8,977,093	8,328,780
Settled during the year	(8,328,780)	(10,028,108)
Ending balance	8,977,093	8,328,780

24 RELATED PARTIES TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the company, entities controlled, jointly controlled or significantly influenced by such parties; The Company consummates transactions with related parties on an arm's length basis subject to the rules, policies and regulations applied in the Company and in accordance to the Article of Association that the company's transactions related to Real Estate finance activity through refinancing activities should limited only with the shareholders.

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

	31 December 2016 EGP	31 December 2015 EGP
Interest income and commissions on mortgage refinance loans	65,728,113	59,895,658
Interest income on time deposits and current accounts	1,497,450	851,248
Interest expense on term loans	3,694,539	(1,384,081)
Interest expense on overdraft account	(95)	(102,212)
Bank charges	(123,169)	(54,629)

Management & directors emoluments

The following table represent management & member of board of directors emoluments during the year ended 31 December as follows:

	31 December 2016 EGP	31 December 2015 EGP
Board of directors allowance	344,500	379,000
Management wages & salaries	5,671,110	6,026,274