EGYPTIAN MORTGAGE REFINANCE COMPANY S.A.E
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
TOGETHER WITH AUDITOR'S REPORT

Allied for Accounting & Auditing
Ragheb, Hamouda, Istanbouli, Tageldeen & El-Kilany

Building a better
working world

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Allied for Accounting & Auditing
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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 2017, and the related statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, 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 2017, and of its financial performance and its cash flows for the year then ended in accordance with Egyptian Accounting Standards and the related applicable Egyptian laws and regulations.

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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: 28 March 2018

Auditor

Sherif Fathy Elkelany
EFSAA FEST
EFSAA (83)
RAA (5285)

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

STATEMENT OF FINANCIAL POSITION

As of 31 December 2017

	Note	31 December 2017 EGP	31 December 2016 EGP
Assets			
Cash on hand and at banks	(3)	**72,334,903**	36,023,251
Investments in treasury bills (Net)	(4)	**121,222,297**	48,125,139
Mortgage refinance loans	(5)	**584,121,713**	574,872,436
Financial investment held to maturity	(6)	**10,000,000**	10,000,000
Prepayments and other debit balances	(8)	**6,715,434**	4,509,081
Intangible assets	(9)	**186,307**	284,082
Fixed assets	(10)	**879,975**	1,309,546
Deferred Tax Assets	(12)	**39,433**	-
Total assets		**795,500,062**	675,123,535
Liabilities and equity			
Liabilities			
Term Loans	(11-a)	**204,896,735**	175,958,712
Income tax payable	(12)	**11,543,994**	8,977,093
Deferred tax liabilities		**-**	4,228
Tax Provisions	(13)	**1,000,000**	-
Accrued expenses and other credit balances	(14)	**6,089,999**	5,714,181
Total		**223,530,728**	190,654,214
CBE Subordinated Loan	(11-b)	**63,949,774**	-
Total liabilities		**287,480,502**	190,654,214
Equity			
Paid up capital	(15)	**373,321,000**	369,542,000
Legal reserve		**26,304,378**	23,525,639
Retained earnings		**72,080,971**	60,239,245
Profits for the year		**36,313,211**	31,162,437
Total equity		**508,019,560**	484,469,321
Total liabilities and equity		**795,500,062**	675,123,535

Auditor	Finance Manager	Chief Executive Officer	Chairman

- The accompanying notes from (1) to (21) 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 2017

	Note	31 December 2017 EGP	31 December 2016 EGP
Interest income and commissions on mortgage refinance loans	(20)	**67,644,431**	65,728,113
Interest income on treasury bills		**18,922,314**	5,709,140
Interest income on time deposits and current accounts		**3,708,976**	1,541,600
Interest income on financial investments held to maturity		**1,550,000**	1,255,048
TOTAL REVENUES		**91,825,721**	74,233,901
General and administrative expenses	(16)	**(18,338,695)**	(15,905,029)
Finance expenses	(17)	**(22,859,740)**	(18,201,426)
Tax Provisions	(13)	**(1,000,000)**	-
Gain from disposal of fixed assets		**3,500**	-
PROFITS BEFORE INCOME TAXES		**49,630,786**	40,127,446
Current income tax	(12)	**(13,361,236)**	(8,977,093)
Deferred tax income	(12)	**43,661**	12,084
PROFITS FOR THE YEAR		**36,313,211**	31,162,437

Finance Manager **Chief Executive Officer** **Chairman**

-The accompanying notes from (1) to (21) 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 2017

	31 December 2017	31 December 2016
	EGP	EGP
Profits for the year	**36,313,211**	31,162,437
Other comprehensive income	**-**	-
TOTAL COMPREHENSIVE INCOME	**36,313,211**	31,162,437

-The accompanying notes from (1) to (21) 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 2017

	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 2017	369,542,000	-	-	23,525,639	60,239,245	31,162,437	484,469,321
Amounts paid under capital increase (Note 15)	-	4,999,617	-	-	-	-	4,999,617
Transferred to paid up capital	3,779,000	(3,779,000)	-	-	-	-	-
Dividends paid	-	-	-	-	-	(17,762,589)	(17,762,589)
Transferred to legal reserve (Note 15)	-	(1,220,617)	-	1,220,617	-	-	-
Transferred to retained earnings	-	-	-	1,558,122	11,841,726	(13,399,848)	-
Total comprehensive income	-	-	-	-	-	36,313,211	36,313,211
Balance as of 31 December 2017	**373,321,000**	**-**	**-**	**26,304,378**	**72,080,971**	**36,313,211**	**508,019,560**
Balance as of 1 January 2016	363,542,000	-	(23,180,249)	19,933,991	47,425,153	26,977,036	434,697,931
Treasury shares sold	-	-	23,180,249	580,646	-	-	23,760,895
Amounts paid under capital increase	-	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 paid	-	-	-	-	-	(12,814,092)	(12,814,092)
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 (21) are an integral part of these financial statements

Translation of financial statements
Originally issued in Arabic

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	31 December 2017	31 December 2016
		EGP	EGP
CASH FLOWS FROM OPERATING ACTIVITIES			
Profits before income taxes		49,630,786	40,127,446
Amortization	(9)	97,775	195,678
Depreciation	(10)	586,928	600,751
Tax provisions		1,000,000	-
Gain from disposal of fixed assets	(10)	(3,500)	-
Debit Interest		22,859,740	18,201,426
Credit Interest		(91,825,721)	(74,233,901)
		(17,653,992)	(15,108,600)
Change in mortgage refinance loans		(9,249,277)	(17,241,595)
Change in prepayments and other debit balances *		(4,017,903)	(1,088,007)
Change in accrued expenses and other credit balances		(857,336)	831,029
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES		(31,778,508)	(32,607,173)
Debt interest paid		(21,626,586)	(18,364,946)
Income tax paid	(12)	(8,940,182)	(8,328,780)
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES		(62,345,276)	(59,300,899)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments in treasury bills		(78,845,829)	(9,369,070)
Proceeds from matured treasury bills more than 90 days		9,369,070	-
Payments to acquire fixed assets and intangible assets	(10)	(157,357)	(646,512)
Proceeds from sale of fixed assets		3,500	-
Credit interest collected		91,783,118	74,174,840
NET CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES		22,152,502	64,159,258
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts paid under capital increase	(15)	4,999,617	7,662,150
Sales of treasury shares		-	23,760,895
Term loan repayment	(11)	(29,477,982)	(89,557,748)
Proceeds from term loans		58,326,619	80,147,045
CBE initiative loan		64,039,161	-
Dividends paid		(17,762,589)	(12,814,092)
NET CASH FLOWS PROVIDED FROM FINANCING ACTIVITIES		80,124,826	9,198,250
Net change in cash and cash equivalent during the year		39,932,052	14,056,609
Cash and cash equivalent – beginning of the year		74,779,319	60,722,710
CASH AND CASH EQUIVALENT – END OF THE YEAR		114,711,371	74,779,319

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

		31 December 2017	31 December 2016
		EGP	EGP
Cash on hand and at banks	(3)	72,334,903	36,023,251
Treasury bills maturing within 90 days		42,376,468	38,756,068
		114,711,371	74,779,319

*This balance includes amount of EGP 1,854,153 represents income tax settlements for previous years.

-The accompanying notes from (1) to (21) are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

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 registered address is located at 3 Abu EL Feda street, El Zamalek, Cairo.

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 2017 were authorized for issuance in accordance with a resolution of the Board of Directors on 25 March 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

2-1 BASIS OF PREPARATION

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

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.

The accounting policies adopted this year are consistent with those of the previous year.

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 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 currency translation
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 profit or loss.
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 profit or loss 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 profit or loss.

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets (continued)
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 profit or loss.

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 statement of profit or loss 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 statement of financial position 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 or 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 profit or loss.

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 profit or loss.

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

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the statement of profit or loss when the investments are derecognized or impaired, impairment is recovered, as well as through the amortization process

Revenue recognition:
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

- **Interest income**

Interest income is recognized as interest accrues using the effective interest "EIR" method. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a sho ter period, where appropriate, to the net carrying amount of the financial asset or liability.

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.

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 statement of financial position (accounting base) using the applicable tax rate.
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 profit or loss 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.

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Borrowing
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 statement of financial position 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 profit or loss 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 profit or loss.

Borrowing cost
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Expenses
All expenses including general and administrative expenses and other expenses are recognized and charged to the statement of profit or loss 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.

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.

Contingent Liabilities and Assets
Contingent liabilities are not recognized in the separate financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the separate financial statements but disclosed when an inflow of economic benefits is probable.

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.

2-3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

Impairment of financial assets

The Company assesses at each financial position 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.

Impairment of non-financial assets

The Company assesses at each financial position 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 profit or loss.

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 profit or loss.

Statement of cash flows

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

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.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

3 - CASH ON HAND AND AT BANKS

	31 December 2017 EGP	31 December 2016 EGP
Current accounts	**13,144,903**	1,323,251
Time deposits maturing within Three months	**59,190,000**	34,700,000
	72,334,903	36,023,251

-Time deposits are held at commercial banks in Egypt with a weighted average interest rate 16%.

4 - INVESTMENTS IN TREASURY BILLS

	31 December 2017 LE	31 December 2016 LE
Treasury bills maturing before 30 days	**20,000,000**	5,000,000
Treasury bills maturing after 60 days to 90 days	**23,500,000**	35,000,000
Treasury bills maturing after 90 days to 150 days	**20,000,000**	10,000,000
Treasury bills maturing more than 150 days	**65,500,000**	-
	129,000,000	50,000,000
Unearned interest	**(7,777,703)**	(1,874,861)
	121,222,297	48,125,139

5 - MORTGAGE REFINANCE LOANS

The Company has outstanding (137) mortgage refinance loans to (11) customers, as follows:

	Short term EGP	Long term EGP	**Total 31 December 2017 EGP**	Total 31 December 2016 EGP
1-Egyptian Arab Land Bank	1,400,000	4,900,000	**6,300,000**	7,700,000
2-Taameer Mortgage Finance Company	32,530,623	125,726,927	**158,257,550**	150,559,138
3-Tamweel Mortgage Finance Company	24,769,669	41,095,306	**65,864,975**	82,339,215
4-Egyptian Housing Finance Company	6,012,944	7,351,148	**13,364,092**	22,897,005
5-Sakan Company	4,642,527	13,101,395	**17,743,922**	24,499,677
6-AlAhly Mortgage Finance Company	1,761,679	22,550,036	**24,311,715**	7,721,481
7-Amlak Finance and Real Estate Investments	22,523,214	111,674,217	**134,197,431**	99,213,857
8-Housing And Development Bank	9,050,744	68,979,367	**78,030,111**	87,080,854
9-National Bank Of Egypt	8,070,588	61,275,588	**69,346,176**	77,416,765
10-Banque Misr	1,333,334	12,777,777	**14,111,111**	15,444,444
11-Contact Mortgage Finance Company	23,065	2,571,565	**2,594,630**	-
	112,118,387	472,003,326	**584,121,713**	574,872,436

- Contractual interest rates vary from 1% to 21%.
- There are mortgage refinancing loans at a variable interest rate at the rate of the Central Bank of Egypt (Corridor lending / average Corrido r) in addition to 1.75%.
- Each loan is secured by first-degree possession mortgage of the mortgage finance portfolio of the borrower.
- The value of the mortgage portfolio of each borrower pledged to the Company represents more than 110% of the balance of the above loans during the year from 1 January 2017 to 31 December 2017 (in accordance with EFSA regulations) except for the CBE initiative mortgage loans the mortgage finance Portfolio of each borrower within the year represents only 100 %
- Facilities are within credit limits approved from concerned authority.
- All borrowers are complying with the due date and haven't experienced any previous failure rates.
- The borrower is obliged to conduct the required replacements or commercial possessory pledge of the underlying customers' files to fulfil the Master Refinance and Service agreement.

6 FINANCIAL INVESTMENTS HELD TO MATURITY

	31 December 2017 EGP	31 December 2016 EGP
Egyptian Pound		
Suez Canal Investment Certificates (mature on 12 September 2019 with an annual interest rate 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 2017:	**Level (1)**	**Level (2)**	**Level (3)**
Investments in treasury bills	-	121,222,297	-
Financial investments held to maturity	-	10,000,000	-
Mortgage refinance loans	-	-	584,121,713

31 December 2016:	Level (1)	Level (2)	Level (3)
Investments in treasury bills		48,125,139	-
Financial investments held to maturity	-	10,000,000	-
Mortgage refinance loans	-	-	574,872,436

8 PREPAYMENTS AND OTHER DEBIT BALANCES

	31 December 2017 EGP	31 December 2016 EGP
Withholding tax on treasury bills	**3,221,701**	2,978,010
Accrued interest income	**167,022**	124,419
Prepaid expenses	**1,567,576**	135,143
Security deposit	**206,845**	206,845
Employees loans	**488,166**	6,111
Other debit balances	**37,904**	32,333
Down payments to acquire intangible assets *	**1,026,220**	1,026,220
	6,715,434	4,509,081

* The value of the down payments to acquire intangible assets amounts to EGP 1,026,220 and it represents the total amount incurred by the company to develop its credit system. The company has already received the system from the developer and it is currently testing it and it is expected to be included in the intangible assets in fiscal year 2018.

9 INTANGIBLE ASSETS

	31 December 2017 Computer software EGP	31 December 2016 Computer software EGP
Cost		
At the beginning of the Year	**2,249,676**	2,249,676
Additions during the Year	-	-
At the end of the Year	**2,249,676**	2,249,676
Accumulated amortization		
At the beginning of the Year	**(1,965,594)**	(1,769,916)
Amortization for the Year (Note 16)	**(97,775)**	(195,678)
At the end of the Year	**(2,063,369)**	(1,965,594)
Net book value		
At the end of the Year	**186,307**	284,082

10 FIXED ASSETS

	Computers EGP	Furniture & fixtures EGP	Motor vehicles EGP	Office equipment EGP	Leasehold improvements EGP	Total EGP
Cost						
As of 1 January 2017	2,964,087	1,353,135	666,900	600,893	995,049	6,580,064
Disposals	(14,850)	(64,701)	-	(46,246)	-	(125,797)
Additions during the year	36,000	81,286	-	40,071	-	157,357
As of 31 December 2017	2,985,237	1,369,720	666,900	594,718	995,049	6,611,624
Accumulated depreciation						
As of 1 January 2017	(2,045,923)	(1,200,313)	(541,650)	(490,975)	(991,657)	(5,270,518)
Disposals	14,850	64,701	-	46,246	-	125,797
Depreciation for the year	(361,659)	(73,074)	(109,400)	(42,055)	(740)	(586,928)
As of 31 December 2017	(2,392,732)	(1,208,686)	(651,050)	(486,784)	(992,397)	(5,731,649)
Net Book Value as of 31 December 2017	**592,505**	**161,034**	**15,850**	**107,934**	**2,652**	**879,975**

- 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 5,572,855 as of 31 December 2017 (31 December 2016: EGP 5,121,845).

Fixed Assets during 2016

	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

11 A - TERM LOANS

	Non-Current	Current	Total 31 December 2017	Total 31 December 2016
	EGP	EGP	EGP	EGP
Loan from Ministry of International Cooperation (a)	114,789,780	15,293,880	**130,083,660**	145,377,540
United Bank medium term loans (b)	35,522,354	23,140,272	**58,662,626**	15,581,172
Egyptian Arab Land Bank medium term loans (c)	12,701,752	3,448,697	**16,150,449**	15,000,000
	163,013,886	41,882,849	**204,896,735**	175,958,712

11 B - CBE INITIATIVE LOAN

	Non-Current	Current	Total 31 December 2017	Total 31 December 2016
	EGP	EGP	EGP	EGP
CBE initiative loan (d)	63,373,422	576,352	**63,949,774**	-
	63,373,422	576,352	**63,949,774**	-

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.

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 weighted average rate for all tranches of the World Bank loan is 9.52%.

- 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.
  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.

B) An agreement was made between Egyptian Mortgage Refinance Company (the borrower) and the 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). There is no balance at the balance sheet date.
- Amount of EGP 90,000,000 as medium term loans (3 years). The balance at the balance sheet date is amounted to EGP 58,662,626.

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 2017 to October, 11th 2017.

The agreement between the company and the united bank has been renewed in October 2017, and the debit interest rate applied on credit facilities granted to the company adjusted to be med average corridor + 0.50% annually and that on any new use of facilities starting October, 12th 2017.

11 A - TERM LOANS

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). The balance at the balance sheet date is amounted to EGP 12,000,000.

- 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 balance at the balance sheet date is amounted to EGP 4,150,449.

The facility is valid from 7 December 2016 to 6 December 2017.
The company is working on renewing the facilities with Egyptian Arab Land Bank after amending the interest rate.

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

11 B - CBE INITIATIVE LOAN

D) CBE initiative loan

On March, 1st 2017 an agreement has been made between the company and the Central Bank of Egypt included approval of an allocation of EGP 500 million for the company as a loan classified into tranches as refinance for low, middle and upper middle income.

Repayment period of 20 years for each tranche starting at the end of each quarter, the withdrawal period is three months; instalments are paid quarterly on dates April, 1st –July, 1st – October, 1st – January, 1st.

Lending rate as follow:

Tranche	Low Income		Middle Income	Upper Middle
	(Less than 2100 LE)	(Determined by The Mortgage Finance Fund)	(10 Thousands for individual & 14 Thousands for Family)	(15 Thousands for individual & 20 Thousands for Family)
CBE lending rate to EMRC	0.25%	2.25%	3.50%	6%
EMRC profit margin	0.75%	0.75%	1%	1%

The lending rate is calculated at the beginning of the loan life according to actual use, at prices that are shown in the table above.

At the end of each quarter weighted average lending rate is calculated for each tranche, and applied on the remaining life of the loan.

The average interest rate during the year is 2.20 %.

In case of non-payment, tranches will be put on hold and will carry delay interest of 2% annually.

12 - INCOME TAXES

	31 December 2017 EGP	31 December 2016 EGP
Current income tax	(11,507,083)	(8,977,093)
*Prior year adjustments on income tax	(1,854,153)	-
Deferred tax income	43,661	12,084
Income Tax Expense	(13,317,575)	(8,965,009)

Reconciliation of the effective income tax rate

	31 December 2017 EGP	31 December 2016 EGP
Profits before income tax	49,630,786	40,127,446
Add/subtract the tax effect of below items:		
Other deductions – tax exempted income on Suez Canal IC's	-	(1,255,048)
Depreciation and amortization	197,448	53,704
Real estate tax	71,757	71,757
Cost of exempted income	-	555,833
Tax provisions	1,000,000	-
Gain from disposal of fixed assets	(3,400)	-
Board of directors allowance	246,000	344,500
	51,142,591	39,898,192
Income tax rate 22.50%	11,507,083	8,977,093
Effective tax rate	23,19%	22.37%

* (The prior year adjustments on income tax includes amount of EGP 1,437,040 taxes on treasury bills was deducted by the banks at maturity in years 2009- 2010, and amount of EGP 417,113 represents difference between the paid tax on treasury bills & the calculated amount according to law 91 for the year 2005 and its amendments).

Income Tax Payable

	31 December 2017 EGP	31 December 2016 EGP
Income tax payable at the beginning of the year	8,977,093	8,328,780
Accrued during the year	11,507,083	8,977,093
Paid during the year	(8,940,182)	(8,328,780)
Ending balance	11,543,994	8,977,093

Deferred tax

	Balance Sheet		Profit & Loss	
	31 December 2017 Liabilities EGP	31 December 2016 Liabilities EGP	31 December 2017 EGP	31 December 2016 EGP
Depreciation and amortization	39,433	(4,228)	-	-
Deferred tax (expense) / Income	-	-	43,661	12,084
Net deferred tax liabilities	39,433	(4,228)	43,661	12,084

13 - PROVISIONS

	Beginning balance 1/1/2017 EGP	Created during the year EGP	Ending balance 31/12/2017 EGP
Tax provisions	-	1,000,000	1,000,000
	-	1,000,000	1,000,000

14 - ACCRUED EXPENSES AND OTHER CREDIT BALANCES

	31 December 2017 EGP	31 December 2016 EGP
Accrued interest on term loans	**5,813,939**	4,580,785
Accrued expenses	**171,000**	148,000
Accrued EFSA development fees	**50,090**	39,694
Tax Authority – withholding tax	**35,287**	23,338
Social Insurance Authority	**53**	21,392
Other credit balances	**19,630**	605,650
Tax Authority – payroll tax	**-**	295,322
	6,089,999	5,714,181

15 - CAPITAL

The Company's authorized capital amounts to LE 640,000,000 whereas the issued and paid up capital amounts to EGP 373,321,000 divided over 373321 shares (310245 common shares and 63,076 preferred shares of 2 voting rights per each) of EGP 1,000 each and is distributed as follows:

	No, of shares			
Description	**Common**	**Preferred**	**Value**	**%**
Central Bank of Egypt (founder)	40000	57,076	97,076,000	26
National Bank of Egypt (founder)	40000	-	40,000,000	10.71
Mortgage Finance Guarantee and Subsidy Fund (founder)	4000	6000	10,000,000	2.68
Arab Bank	5000	-	5,000,000	1.34
HSBC Bank	18000	-	18,000,000	4.82
Societe Arabe Internationale de Banque	10000	-	10,000,000	2.68
Emirates NBD	2000	-	2,000,000	0.54
Commercial International Bank	5000	-	5,000,000	1.34
Faisal Islamic Bank	4000	-	4,000,000	1.07
Banque Misr	40000	-	40,000,000	10.71
National Bank of Kuwait	4000	-	4,000,000	1.07
Tameer Mortgage Finance Co, (Al Oula)	20000	-	20,000,000	5.36
QNB AlAhly	10000	-	10,000,000	2.68
Kuwait national Bank- Egypt	19000	-	19,000,000	5.09
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	1.34
Egyptian Gulf Bank	10000	-	10,000,000	2.68
Housing and Development Bank	20000	-	20,000,000	5.36
Ahli United Bank	4000	-	4,000,000	1.07
Egyptian Arab Land Bank	20000	-	20,000,000	5.36
Arab African International Mortgage Finance Company	3923	-	3,923,000	1,05
Tamweel Mortgage Finance Company	2806	-	2,806,000	0.75
United Bank	4000	-	4,000,000	1.07
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	0.48
Sakan Mortgage Finance Company	912	-	912,000	0.24
Contact Mortgage Finance Company	5000	-	5,000,000	1.34
Nasser Social Bank	3779	-	3,779,000	1.01
	310245	**63076**	**373,321,000**	**100%**

- On 18 January 2016, the Company sold treasury shares represented in 19076 shares, divided into 17076 shares to the Central Bank of Egypt and 2,000 shares to the Mortgage Finance Guarantee and Support Fund at fair value per share of EGP 1,248.4, according to the Independent Financial Advisor's report on the fair value of the share on 24 The brokerage commission, stock exchange fees and financial advisor fees amounted to EGP 53,583.

- 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.

14 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 September, 17th 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 28 August 2017 to increase company's capital by 3779 shares amounting to EGP 3,779,000 for Nasser Social Bank, and price per share will be EGP 1,323 (book value on 31 July 2017) according to the report of independent financial consultant issued on 15 August 2017 so that the total paid amount is EGP 4,999,617 including premium of EGP 1,220,617 was added to the legal reserve of the company so the issued capital reached EGP 373,321,000 distributed on 373321 shares (the increase has been registered in commercial register on 10 December 2017).

16 - GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2017	31 December 2016
	EGP	EGP
Salaries and wages	**10,714,020**	9,939,532
Premises rent	**2,932,762**	1,814,458
Professional fees	**595,042**	488,373
IT support contracts	**613,382**	466,736
Tax, legal and other consultants	**197,327**	151,717
Amortization of intangible assets	**97,775**	195,679
Depreciation of fixed assets	**586,928**	600,751
Board member allowance	**246,000**	344,500
Banking Charges	**236,368**	125,780
Cleaning and security	**196,401**	168,582
EFSA development fees	**183,658**	148,468
Insurance	**110,433**	74,568
Employees training	**34,088**	210,330
Stationary and printing materials	**32,622**	37,487
Repair & maintenance	**266,611**	127,619
Electricity	**122,908**	81,907
Telephone and mobile	**113,401**	83,467
Internet and ADSL	**79,800**	69,687
Entertainment, meals and public relations	**15,740**	56,692
AGM & EGM Meeting Expenses	**23,199**	15,548
Legal expenses	**53,461**	31,890
Travel and transportation	**6,216**	24,985
Advertising and Promotions	**6,306**	-
Donations	**750,000**	500,000
Other expenses	**124,247**	146,274
	18,338,695	15,905,029

17 - FINANCE EXPENSES

	31 December 2017 EGP	31 December 2016 EGP
Interest on term loans	22,576,458	18,201,331
Interest on subordinated loan	283,019	-
Interest on Overdraft Account (note 20)	263	95
	22,859,740	18,201,426

18 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 8,447,087 and the Company objected on the assessment and the issue was transferred to the Internal Committee and the committee decided to re-examine items of (what has been added in the Treasury bills in tax declaration in year 2010 – life insurance and health insurance – financing charges – separate bowl article 56 for the year 2009) and the documents were processed and awaiting the appointment of inspection.
- The years 2011 and 2012, the company was notified with form 19 discretionary tax funds companies with an estimated tax and the Company objected on the assessment, the documents were processed to make an internal Committee of inspection.
- The years 2013 and 2014, the company was notified with a tax inspection request and the documents were processed and awaiting the appointment of the inspection.
- The years 2015 and 2016, the company has not been notified with a tax inspection request and the company files its tax declaration on time.

a) Salary tax

- The Company's records were inspected for the years from 2009 till 2010 and resulted in a tax of EGP 37,780. The Company objected on the assessment and the issue was transferred to the Internal Committee, the company objected on the Internal Committee result and the issue transferred to Specialized Committee which is benign finalized.
- The Company's records were inspected for the years from 2011 till 2014, resulted in a tax of EGP 466,169 which was challenged and transferred to Internal Committee, and the company objected on the result and transferred the issue to the Specialized Committee which is being finalized.
- For the years 2015 and 2016, the annual settlement has been done and delivered to the Tax authority, and the company not yet notified with a tax inspection.

b) 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 as a delay interest.
- No tax inspection took place for the Company's records for years 2014 and 2016.

d) Withholding taxes

- The company was notified with an amount of EGP 121,005 for the period from 1/1/2013 to 31/12/2016, the company objected and awaiting for transferring the issue to the tax authority.

19 - EXPENDITURE COMMITMENTS

	31 December 2017 EGP	31 December 2016 EGP
Operating lease commitment within one year	**2,403,880**	2,893,420
Operating lease commitment after one year but not more than five years	**249,600**	343,200
Total operating lease expenditure contracted for at the balance sheet date	**2,653,480**	3,236,620

20 - 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 2017 EGP	31 December 2016 EGP
Interest income and commissions on mortgage refinance loans	**67,644,431**	65,728,113
Interest income on time deposits and current accounts	**3,708,976**	1,497,450
Interest expense on term loans	**(9,526,002)**	(3,694,539)
Interest expense on overdraft account	**(263)**	(95)
Interest on subordinated loan	**(283,019)**	-
Bank charges	**(234,875)**	(123,169)

Management & directors emoluments

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

	31 December 2017 EGP	31 December 2016 EGP
Board of directors allowance	**246,000**	344,500
Management wages & salaries	**6,412,658**	5,671,110

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

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.

21 - RISK MANAGEMENT (continued)

b) Market risk (continued)

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 2017		31 December 2016	
	Change in rate	**Effect on profit before tax EGP**	Change in rate	Effect on profit before tax EGP
Financial asset	**+1%**	**618,321**	+1%	163,387
	- 1%	**(618,321)**	- 1%	(163,387)
Financial liability	**+1%**	**(586,626)**	+1%	(305,812)
	- 1%	**586,626**	- 1%	305,812

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 11 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 2017		31 December 2016	
	Change in rate	**Effect on profit before tax EGP**	Change in rate	Effect on profit before tax EGP
USD	**+10%**	**383,104**	+10%	180,355
	-10%	**(383,104)**	-10%	(180,355)

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 EGP	**3 to 12 Months EGP**	**1 to 5 years EGP**	**Over 5 years EGP**	**Total EGP**
As at 31 December 2017					
Term loans	**14,294,182**	**27,588,667**	**123,235,240**	**39,778,646**	**204,896,735**
Accrued expenses and other credit balances	**6,089,999**	**-**	**-**	**-**	**6,089,999**
Income tax payable	**11,543,995**	**-**	**-**	**-**	**11,543,995**
	102,731	**473,621**	**7,513,480**	**55,859,943**	**63,949,775**
Total undiscounted financial liabilities	**32,030,907**	**28,062,288**	**130,748,720**	**95,638,589**	**286,480,504**

	Less than 3 Months EGP	3 to 12 months EGP	1 to 5 years EGP	Over 5 years EGP	Total EGP
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

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.