

**EGYPTIAN MORTGAGE REFINANCE COMPANY S.A.E  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013  
TOGETHER WITH AUDITOR'S REPORT**



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## **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 balance sheet as of 31 December 2013, and the related statements of 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, give 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 2013, 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: 3 April 2014**

  
  
**Nabil A. Istambouli**  
**EFSAA - FEST**  
**EFSAA (71)**  
**RAA (5947)**

## EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

### BALANCE SHEET

As Of 31 December 2013

	Note	2013 LE	2012 LE
<b>Assets</b>			
Cash at banks	(3)	28,646,581	46,399,120
Investments in treasury bills	(4)	87,492,809	152,854,751
Mortgage refinance loans	(5)	513,053,739	424,487,024
Prepayments and other debit balances	(6)	3,389,532	3,532,977
Other assets		-	214,452
Intangible assets	(7)	669,123	1,029,356
Fixed assets	(8)	1,549,520	522,110
<b>Total assets</b>		<b>634,801,304</b>	<b>629,039,790</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Accrued expenses and other credit balances	(9)	5,672,667	6,046,791
Income tax payable	(21)	8,040,586	5,283,287
Term loan	(14)	191,259,180	206,553,060
Deferred tax liabilities	(20)	373,228	140,251
<b>Total liabilities</b>		<b>205,345,661</b>	<b>218,023,389</b>
<b>Equity</b>			
Paid up capital	(10)	363,542,000	363,542,000
Legal reserve	(11)	17,340,022	16,329,719
Retained earnings		21,496,285	10,938,614
Profits for the year		27,077,336	20,206,068
<b>Total equity</b>		<b>429,455,643</b>	<b>411,016,401</b>
<b>Total liabilities and equity</b>		<b>634,801,304</b>	<b>629,039,790</b>

  
Auditor

  
Chairman and  
Managing  
Director

  
Chief Financial  
Officer

- The accompanying notes from (1) to (22) are an integral part of these financial statements.
- Auditor's report attached.

# EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

## STATEMENT OF INCOME

For The Year Ended 31 December 2013

	Note	2013 LE	2012 LE
Interest income and commissions on mortgage refinance loans	(22)	53,953,444	41,753,476
Interest income on treasury bills		8,519,834	7,026,524
Interest income on time deposits and current accounts	(22)	412,631	3,718,834
Gain on sale of financial assets at fair value through profit or loss		5,005,984	4,009,380
<b>TOTAL REVENUES FOR THE YEAR</b>		<b>67,891,893</b>	<b>56,508,214</b>
General and administrative expenses	(12)	(12,533,167)	(10,056,400)
Depreciation and amortization	(7-8)	(803,152)	(924,474)
Finance expenses	(13)	(18,889,175)	(20,198,831)
Board of Directors members' allowance		(372,000)	(278,500)
Gain from sale of fixed assets		56,500	-
<b>PROFITS BEFORE INCOME TAXES</b>		<b>35,350,899</b>	<b>25,050,009</b>
Current income tax	(21)	(8,040,586)	(5,283,287)
Deferred tax (expense) / income	(20)	(232,977)	439,346
<b>PROFITS FOR THE YEAR</b>		<b>27,077,336</b>	<b>20,206,068</b>

- The accompanying notes from (1) to (22) 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 2013

	Paid up capital	Amounts paid in respect of capital increase	Legal reserve	Retained earnings	Profits for the period	Total
	LE	LE	LE	LE	LE	LE
Balance as of 1 January 2012	240,980,000	-	3,908,542	4,414,679	14,477,195	263,780,416
Transferred to legal reserve and retained earnings	-	-	723,860	6,523,935	(7,247,795)	-
Dividends	-	-	-	-	(7,229,400)	(7,229,400)
Amounts paid in respect of capital increase	-	134,259,317	-	-	-	134,259,317
Transferred to Paid up Capital	122,562,000	(122,562,000)	-	-	-	-
Premium transferred to Legal Reserve	-	(11,697,317)	11,697,317	-	-	-
Profits for the year	-	-	-	-	20,206,068	20,206,068
<b>Balance as of 31 December 2012</b>	<b>363,542,000</b>	<b>-</b>	<b>16,329,719</b>	<b>10,938,614</b>	<b>20,206,068</b>	<b>411,016,401</b>
Balance as of 1 January 2013	363,542,000	-	16,329,719	10,938,614	20,206,068	411,016,401
Transferred to legal reserve and retained earnings (note 11)	-	-	1,010,303	10,557,671	(11,567,974)	-
Dividends	-	-	-	-	(8,638,094)	(8,638,094)
Profits for the year	-	-	-	-	27,077,336	27,077,336
<b>Balance as of 31 December 2013</b>	<b>363,542,000</b>	<b>-</b>	<b>17,340,022</b>	<b>21,496,285</b>	<b>27,077,336</b>	<b>429,455,643</b>

-The accompanying notes from (1) to (22) 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 2013

	Note	2013	2012
		LE	LE
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profits before income taxes		35,350,899	25,050,009
Depreciation and amortization	(7/8)	803,152	924,474
Gain on sale of financial assets at fair value through profit or loss		(5,005,984)	(4,009,380)
Gain from sale of fixed assets		(56,500)	-
		<u>31,091,567</u>	<u>21,965,103</u>
Change in mortgage refinance loans	(5)	(88,566,715)	(59,225,351)
Change in prepayments and other debit balances	(6)	143,445	893,213
Change in accounts payable		-	(7,840)
Change in accrued expenses and other credit balances	(9)	(374,124)	(278,545)
		<u>(57,705,827)</u>	<u>(36,653,420)</u>
<b>CASH FLOWS (USED IN) OPERATING ACTIVITIES</b>		<u>(57,705,827)</u>	<u>(36,653,420)</u>
Income taxes paid		(5,283,287)	(3,428,481)
<b>NET CASH FLOWS (USED IN) OPERATING ACTIVITIES</b>		<u>(62,989,114)</u>	<u>(40,081,901)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments in treasury bills		(43,326,628)	(61,039,091)
Proceeds from matured treasury bills		61,039,090	-
Purchase of financial assets at fair value through profit or loss		(257,692,954)	(309,692,398)
Proceeds from sale of financial assets at fair value through profit or loss		262,698,938	313,701,778
Payments to acquire Other Assets		-	(214,452)
Proceeds from sale of fixed assets		56,500	-
Payments to acquire fixed assets and intangible assets	(8/7)	(1,255,876)	(556,065)
<b>NET CASH FLOWS PROVIDED FROM (USED IN) INVESTING ACTIVITIES</b>		<u>21,519,070</u>	<u>(57,800,228)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Term loan repayment	(14)	(15,293,880)	(7,646,940)
Dividends paid		(8,638,094)	(7,229,400)
Amount paid in respect of capital increase		-	134,259,317
<b>NET CASH FLOWS (USED IN) PROVIDED FROM FINANCING ACTIVITIES</b>		<u>(23,931,974)</u>	<u>119,382,977</u>
<b>Net change in cash and cash equivalent during the year</b>		<u>(65,402,018)</u>	<u>21,500,848</u>
Cash and cash equivalent – beginning of the year		<u>138,214,780</u>	<u>116,713,932</u>
<b>CASH AND CASH EQUIVALENT – END OF THE YEAR</b>		<u>72,812,762</u>	<u>138,214,780</u>

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

		31 December 2013	31 December 2012
		LE	LE
Cash on hand and at banks	(3)	28,646,581	46,399,120
Treasury bills maturing within 90 days		44,166,181	91,815,660
		<u>72,812,762</u>	<u>138,214,780</u>

-The accompanying notes from (1) to (22) are an integral part of these financial statements.



# EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

### 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 2013 were authorized for issue in accordance with a resolution of the Board of Directors April 2<sup>nd</sup> 2014.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### 2-1 Basis of preparation

The financial statements are prepared under the going concern assumption on a historical cost basis except for the financial assets at fair value through profit or loss which is referred to in note (2-9) that has been measured at fair value.

#### Statement of compliance

The financial statements of the Company are prepared in accordance with the Egyptian accounting standards and the applicable laws and regulations.

#### 2-2 Changes in accounting policies

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

#### 2-3 Accounting estimates

The preparation of the financial statements in accordance with Egyptian Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the financial year. Actual results could differ from these estimates.

#### 2-4 Foreign currency translation

The financial statements are prepared and presented in Egyptian pound, which is the Company's functional currency.

Transactions in foreign currencies are initially recorded using the exchange rates prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated using the exchange rates prevailing at the balance sheet date. All differences are recognized in the statement of income.

Nonmonetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rates prevailing on the date of the initial recognition.

Nonmonetary assets and liabilities measured at fair value in foreign currencies are translated using the exchange rates prevailing on the date when the fair value is determined.

#### 2-5 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:

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



# EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2-5 Fixed assets (Continued)

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.

#### 2-6 Other assets

Costs relating to computers software and network under development are initially recorded in this account. When the asset is completed and becomes ready for use, it is transferred to intangible assets or fixed assets captions.

#### 2-7 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:

	<u>Years</u>
Computer software	5

#### 2-8 Treasury bills and CBE CD's

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.

#### 2-9 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.

## EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

### NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2-16 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 periods 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.

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 period, except to the extent that the tax arises from a transaction or an event which is recognized, in the same or a different period, directly in equity.

##### 2-17 Legal reserve

According to the Company's articles of association, 5% of the profits of the year is 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.

##### 2-18 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.

##### 2-19 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.

##### 2-20 Borrowing cost

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

##### 2-21 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.

##### 2-22 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.

##### 2-23 Statement of cash flows

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

## EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

#### 5 MORTGAGE REFINANCE LOANS

The Company has outstanding (53) mortgage refinance loans to (8) customers, as follows:

	Short Term	Long Term	Total	Committed Limit
	LE	LE	LE	LE
Egyptian Arab Land Bank (One Loan)	8,400,000	19,600,000	28,000,000	28,000,000
Taameer Mortgage Finance Company First Agreement (Aloula)- (Three Loans)	6,205,556	24,297,222	30,502,778	30,502,778
Taameer Mortgage Finance Company Second Agreement (Aloula)- (One Loan)	420,000	3,360,000	3,780,000	3,780,000
Taameer Mortgage Finance Company Third Agreement (Aloula)- (One Loan)	3,916,666	39,166,667	43,083,333	43,083,333
Taameer Mortgage Finance Company Fourth Agreement (Aloula)- (One Loan)	2,916,666	30,138,889	33,055,555	33,055,555
Taameer Mortgage Finance Company Fifth Agreement (Aloula)- (One Loan)	722,222	5,777,778	6,500,000	6,500,000
Taameer Mortgage Finance Company Sixth Agreement (Aloula)- (One Loan)	533,333	5,866,667	6,400,000	6,400,000
Taameer Mortgage Finance Company Seventh Agreement (Aloula)- (One Loan)	500,000	5,500,000	6,000,000	6,000,000
Tamweel Mortgage Finance Company- First Agreement- (Five Loans)	3,755,000	15,677,500	19,432,500	19,432,500
Tamweel Mortgage Finance Company- Second Agreement- (Ten Loans)	4,503,790	28,804,549	33,308,339	33,308,339
Tamweel Mortgage Finance Company- Third Agreement- (Five Loans)	4,909,091	32,188,636	37,097,727	37,097,727
Tamweel Mortgage Finance Company- Fourth Agreement- (One Loan)	550,000	3,850,000	4,400,000	4,400,000
Tamweel Mortgage Finance Company- Fifth Agreement- (One Loan)	233,336	1,750,000	1,983,336	1,983,336
Tamweel Mortgage Finance Company- Sixth Agreement- (One Loan)	317,647	2,382,353	2,700,000	2,700,000
Egyptian Housing Finance Company-First Agreement - (One Loan)	800,000	2,000,000	2,800,000	2,800,000
Egyptian Housing Finance Company-Second Agreement (Three Loans)	4,667,858	26,226,786	30,894,644	30,894,644
Sakan Company - First Agreement - (One Loan)	2,285,714	12,571,429	14,857,143	14,857,143
Sakan Company - Second Agreement - (One Loan)	965,854	2,092,683	3,058,537	3,058,537
Housing And Development Bank-First Agreement (Three Loans)	3,002,500	35,971,250	38,973,750	38,973,750
Housing And Development Bank-Second Agreement (Three Loans)	3,231,250	41,921,875	45,153,125	45,153,125
National Bank Of Egypt (Seven Loans)	8,070,588	93,557,940	101,628,528	101,628,528
Banque Misr (One Loan)	1,333,333	18,111,111	19,444,444	19,444,444
	<b>62,240,404</b>	<b>450,813,335</b>	<b>513,053,739</b>	

Contractual interest rates vary from 10.25% to 12.75%.

- 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 period represents more than 110 % of the above loans balances (As per Regulator directives).

#### 6 PREPAYMENTS AND OTHER DEBIT BALANCES

	2013	2012
	LE	LE
Withholding tax on treasury bills	3,015,383	3,138,954
Prepaid expenses	152,260	136,429
Security deposit	199,408	199,408
Accrued interest income	11,374	8,096
Other debit balances	8,493	14,781
Staff receivable	2,614	35,309
	<b>3,389,532</b>	<b>3,532,977</b>

**EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)**

**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2013

**7 INTANGIBLE ASSETS**

	<b>Computer software LE</b>
<b>Cost</b>	
As of 1 January 2013	1,801,168
As of 31 December 2013	<u>1,801,168</u>
<b>Accumulated amortization</b>	
As of 1 January 2013	(771,811)
Amortization for the year	(360,234)
As of 31 December 2013	<u>(1,132,045)</u>
<b>Net book value as of</b>	
<b>31 December 2013</b>	<u><b>669,123</b></u>
31 December 2012	<u>1,029,356</u>

**8 FIXED ASSETS**

	Computers	Furniture & fixtures	Motor vehicles	Office equipment	Leasehold improvements	Total
	LE	LE	LE	LE	LE	LE
<b>Cost</b>						
As of 1 January 2013	1,487,666	1,067,609	205,900	446,116	916,416	4,123,707
Additions during the year	566,390	123,045	547,000	15,072	4,369	1,255,876
Disposals	-	-	(86,000)	-	-	(86,000)
Transferred from other assets	214,452	-	-	-	-	214,452
As of 31 December 2013	<u>2,268,508</u>	<u>1,190,654</u>	<u>666,900</u>	<u>461,188</u>	<u>920,785</u>	<u>5,508,035</u>
<b>Accumulated depreciation</b>						
As of 1 January 2013	(1,254,165)	(928,414)	(204,467)	(306,510)	(908,041)	(3,601,597)
Depreciation for the year	(255,231)	(54,116)	(94,983)	(34,848)	(3,740)	(442,918)
Disposals	-	-	86,000	-	-	86,000
As of 31 December 2013	<u>(1,509,396)</u>	<u>(982,530)</u>	<u>(213,450)</u>	<u>(341,358)</u>	<u>(911,781)</u>	<u>(3,958,515)</u>
<b>Net Book Value as of</b>						
31 December 2013	<u>759,112</u>	<u>208,124</u>	<u>453,450</u>	<u>119,830</u>	<u>9,004</u>	<u>1,549,520</u>
31 December 2012	<u>233,502</u>	<u>139,195</u>	<u>1,433</u>	<u>139,606</u>	<u>8,374</u>	<u>522,110</u>

- There is no mortgage over the fixed assets.
- The gross carrying amount of fully depreciated fixed assets that are still in use amounted to LE 3,467,360 as of 31 December 2013 (31 December 2012: LE 2,288,269)

**9 ACCRUED EXPENSES AND OTHER CREDIT BALANCES**

	<b>2013 LE</b>	<b>2012 LE</b>
Accrued interest on term loan	5,362,527	5,791,338
Tax Authority – payroll tax	145,595	111,266
Tax Authority – withholding tax	4,582	11,400
Accrued expenses	98,600	98,000
Accrued EFSA development fees	34,152	33,790
Social Insurance Authority	13,594	989
Other credit balances	13,617	8
	<u>5,672,667</u>	<u>6,046,791</u>



## EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

### NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

#### 10 CAPITAL

The Company's authorized capital amounts to LE 640,000,000 whereas the issued and paid up capital amounts to LE 363,542,000 divided over 363542 shares (300466 common shares and 63076 preferred shares of 2 voting rights per each) of LE 1,000 each and is distributed as follows:

Description	No. of shares		Value	%
	Common	Preferred		
Central Bank of Egypt (founder)	40000	40000	80,000,000	22,01
National Bank of Egypt (founder)	40000	-	40,000,000	11
Mortgage Finance Guarantee and Subsidy Fund (founder)	4000	4000	8,000,000	2,2
Arab Bank	5000	-	5,000,000	1,38
HSBC Bank	18000	-	18,000,000	4,95
Societe Arabe Internationale de Banque	10000	-	10,000,000	2,75
Emirates NBD	2000	-	2,000,000	0,55
Commercial International Bank	5000	-	5,000,000	1,38
Faisal Islamic Bank	4000	-	4,000,000	1,1
Banque Misr	40000	-	40,000,000	11
Al Watany Bank of Egypt	4000	-	4,000,000	1,1
Tameer Mortgage Finance Co, (Al Oula)	20000	-	20,000,000	5,5
QNB AlAhly	10000	-	10,000,000	2,75
Piraeus Bank	19000	-	19,000,000	5,22
Blom Bank	2000	-	2,000,000	0,55
Egyptian Housing Finance Company	2000	-	2,000,000	0,55
Misr Iran Bank	5000	-	5,000,000	1,38
Egyptian Gulf Bank	10000	-	10,000,000	2,75
Housing and Development Bank	20000	-	20,000,000	5,5
Ahli United Bank	4000	-	4,000,000	1,1
Egyptian Arab Land Bank	20000	-	20,000,000	5,5
Arab African International Mortgage Finance Company	3923	-	3,923,000	1,08
Tamweel Mortgage Finance Company	2806	-	2,806,000	0,77
International Finance Corporation	-	19076	19,076,000	5,25
United Bank	4000	-	4,000,000	1,1
Amlak Finance & Real Estate Investment	1000	-	1,000,000	0,28
El Tayseer for Mortgage Finance	2000	-	2,000,000	0,55
El Ahly Mortgage Finance Company	1825	-	1,825,000	0,5
Sakan Mortgage Finance Company	912	-	912,000	0,25
	<b>300466</b>	<b>63076</b>	<b>363,542,000</b>	<b>100</b>

#### 11 LEGAL RESERVE

Legal reserve balance amounting to LE 17,340,022 as of 31 December 2013 is represented as follows:

- 1) The transfer of premium on increase in capital of LE 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 LE 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 5% of the net profit of the year ended 31 December 2007, with the amount of LE 847,111 according to the ordinary general assembly meeting held on 31 March 2008.
- 4) The transfer of premium on increase in capital of LE 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.
- 5) The transfer of 5% of the net profit of the year ended 31 December 2008, with the amount of LE 572,435 according to the ordinary general assembly meeting held on 31 March 2009.
- 6) The transfer of 5% of the net profit of the year ended 31 December 2009, with the amount of LE 672,772 according to the ordinary general assembly meeting held on 11 April 2010.
- 7) The transfer of 5% of the net profit of the year ended 31 December 2010, with the amount of LE 658,046 according to the ordinary general assembly meeting held on 16 June 2011.

## EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

### NOTES TO THE FINANCIAL STATEMENTS

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- 8) The transfer of 5% of the net profit of the year ended 31 December 2011, with the amount of LE 723,860 according to the ordinary general assembly meeting held on 10 May 2012.
- 9) The transfer of premium on increase in capital of LE 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.
- 10) The transfer of 5% of the net profit of the year ended 31 December 2012, with the amount of LE 1,010,303 according to the ordinary general assembly meeting held on 13 June 2013.

#### 12 GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
	LE	LE
Salaries and wages	8,831,296	6,701,060
Premises rent	1,361,332	1,142,823
Professional fees	558,989	457,282
IT support contracts	379,954	403,816
Tax, legal and other consultants	93,690	116,962
Cleaning and security	108,783	111,316
EFSA development fees	135,900	113,016
Insurance	120,442	98,324
Employees training	29,577	94,846
Stationary and printing materials	37,599	34,042
Repair & maintenance	88,676	40,922
Electricity	40,654	35,072
Telephone and mobile	52,478	47,473
Internet and ADSL	33,380	31,956
AGM & EGM Meeting Expenses	13,047	7,872
Entertainment, meals and public relations	20,566	20,099
Legal expenses	19,465	23,010
Travel and transportation	1,986	2,572
Donations	500,000	500,000
Other expenses	105,353	73,937
	<u>12,533,167</u>	<u>10,056,400</u>

#### 13 FINANCE EXPENSES

	2013	2012
	LE	LE
Interest on term loan	18,875,799	20,182,457
Other charges (note 22)	13,376	16,374
	<u>18,889,175</u>	<u>20,198,831</u>

#### 14 LOAN AGREEMENT

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 L.E. 214,200,000 to assist in financing the project as described in note (15) 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 LE 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 2013 amounted to LE 15,293,880.

## EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

### NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

#### 14 LOAN AGREEMENTS (CONTINUED)

The loan balance as of 31 December 2013 amounted to LE 191,259,180 (31 December 2012: LE 206,553,060) is represented as follows:

	2013	2012
	LE	LE
Non-Current	175,965,300	191,259,180
Current	15,293,880	15,293,880
	<u>191,259,180</u>	<u>206,553,060</u>

#### 15 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 (14) 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.

#### 16 EXPENDITURE COMMITMENTS

	2013	2012
	LE	LE
<b>Operating lease commitments</b>		
Future minimum lease payments:		
Within one year:		
Operating lease commitment	1,404,399	1,839,523
Less: Advance payment of operating lease	-	(903,606)
Net operating lease commitment within one year	<u>1,404,399</u>	<u>935,917</u>
After one year but not more than five years	1,230,333	2,550,880
More than five years	-	-
Total operating lease expenditure contracted for at the balance sheet date	<u>2,634,732</u>	<u>3,486,797</u>

#### 17 TAX SITUATION

##### a) Corporate tax

No tax inspection took place for the Company's records for the years from 2007 till 2008.

Currently tax inspection took place for the company's records from 2009 till 2010

##### 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 is currently in the Internal Committee. The Internal Committee verdict accepted the Company's objection and the amount owed to the Company . the tax authority was approved to transferred amounted to LE 4,638 credit balance to the next years

No tax inspection took place for the Company's records for the years from 2009 till 2013.

##### c) Stamp duty tax

No tax inspection took place for the Company's records from the date of inception to date.



## EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

### NOTES TO THE FINANCIAL STATEMENTS

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#### 18 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments are represented in financial assets and financial liabilities. The financial assets include cash on hand and at banks, mortgage refinance loans, and other debit balances. The financial liabilities include accounts payable, income tax payable, term loans, and other credit balances.

The significant accounting policies applied for the recognition and measurement of the above - mentioned financial assets and liabilities and the related income and expenses are included in note (2) of the notes to the interim financial statements.

#### 19 RISK MANAGEMENT

##### a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its term loan, bank deposits, and held to maturity investments.

The Company monitors the maturity structure of assets and liabilities with the related interest rates taking into consideration that interest rate on assets and liabilities is matched up to 10 years with the right of term loan early settlement after 10 years.

##### b) 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 interim financial statements. Expenditure commitments in foreign currency are disclosed under operating lease commitment in note (16) to the interim financial statements.

##### c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation at its maturity date. The Company is exposed to credit risk on its bank balances and mortgage refinance loans as follows:

	2013 LE	2013 LE
Bank balance	28,646,581	46,399,120
Mortgage refinance loans	513,053,739	424,487,024
	<u>541,700,320</u>	<u>470,886,144</u>

##### Credit risks related to banks accounts:

The Company seeks to limit its credit risk with respect to banks by only dealing with reputable banks and there are concentration limits with banks.

##### Credit risk related to investments at fair value through profit or loss:

The investment manager closely monitors the credit worthiness of each fund's investment instruments.

##### Credit risks related to mortgage refinance loans:

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.

**EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)**

**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 2013

**20 DEFERRED TAX**

	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
	<b>LE</b>	<b>LE</b>	<b>LE</b>	<b>LE</b>
Depreciation and amortization	-	(41,520)	5,878	-
Accrued interest income on treasury bills	-	(331,708)	-	(146,129)
Deferred tax assets (liabilities)	-	(373,228)	5,878	(146,129)
Net deferred tax liabilities		<u>(373,228)</u>		<u>(140,251)</u>

**21 RECONCILIATION OF THE EFFECTIVE INCOME TAX RATE**

- Tax rate was amended from 20% to 25% in 2013.

	<b>2013</b>	<b>2012</b>
	<b>LE</b>	<b>LE</b>
Profits before income tax	<u>35,350,900</u>	<u>25,050,009</u>
<b>Add/subtract the tax effect of below items:</b>		
Other additions - accrued interest income on 2012/2011 treasury bills	584,517	2,067,441
Other deductions - accrued interest income on 2013/2012 treasury bills	(1,326,834)	(584,517)
Other deductions – tax exempted income on investment certificates	(5,005,984)	(4,009,380)
Depreciation and amortization	(133,092)	274,462
Real estate tax	65,234	56,634
Cost of investments in exempted income	2,312,105	-
Board of directors allowance	372,000	278,500
Other Revenue	(56,500)	-
	<u>32,162,346</u>	<u>23,133,149</u>
Income tax for the year at the effective tax rate	<u>8,040,586</u>	<u>5,283,287</u>
Effective tax rate	<u>22.75%</u>	<u>21.09%</u>

**22 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 period are as follows:

	<b>2013</b>	<b>2012</b>
	<b>LE</b>	<b>LE</b>
Interest income and commissions on mortgage refinance loans	53,953,444	41,753,476
Interest income on time deposits and current accounts	412,631	3,718,834
Financing charges	13,376	16,374