

EGYPTIAN MORTGAGE REFINANCE COMPANY S.A.E
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015
TOGETHER WITH AUDITOR'S REPORT

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 2015, 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.



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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 2015, 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.

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: 24 March 2016

Auditor


Nabil A. Istambouli

EFSAA FEST

EFSAA (71)

RAA (5947)



EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

BALANCE SHEET

As Of 31 December 2015

	Note	31 December 2015 LE	31 December 2014 LE
Assets			
Cash on hand and at banks	(3)	15,540,043	23,083,979
Investments in treasury bills (Net)	(4)	45,182,667	65,523,004
Mortgage refinance loans	(5)	557,630,841	530,506,243
Financial investment held to maturity	(6)	10,000,000	10,000,000
Prepayments and other debit balances	(7)	3,362,014	3,592,655
Intangible assets	(8)	479,760	458,360
Fixed assets	(9)	1,263,785	1,436,799
Total assets		633,459,110	634,601,040
Liabilities and equity			
Liabilities			
Accrued expenses and other credit balances	(10)	5,046,672	5,274,562
Income tax payable	(22)	8,328,780	10,028,108
Term loans	(15)	185,369,414	175,965,300
Deferred tax liabilities	(21)	16,312	650,964
Total liabilities		198,761,178	191,918,934
Equity			
Paid up capital	(11)	363,542,000	363,542,000
Treasury shares	(11)	(23,180,249)	-
Legal reserve	(12)	19,933,991	18,693,890
Retained earnings		47,425,153	35,644,191
Profits for the year		26,977,037	24,802,025
Total equity		434,697,932	442,682,106
Total liabilities and equity		633,459,110	634,601,040


Auditor


Chief Financial Officer


Chairman

- The accompanying notes from (1) to (23) 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 2015

	Note	31 December 2015 LE	31 December 2014 LE
Interest income and commissions on mortgage refinance loans	(23)	59,895,658	55,052,010
Interest income on treasury bills		4,838,578	9,614,617
Interest income on time deposits and current accounts		886,410	702,141
Interest income on financial investments held to maturity		1,198,402	364,932
Gain on sale of financial assets at fair value through profit or loss		-	1,055,595
Other Revenue		-	15,071
TOTAL REVENUES		66,819,048	66,804,366
General and administrative expenses	(13)	(13,470,211)	(13,074,300)
Depreciation and amortization	(8-9)	(788,590)	(830,930)
Finance expenses	(14)	(17,506,470)	(17,494,302)
(Loss) Gain on disposal of fixed assets		(3,612)	6,535
Board of Directors members' allowance		(379,000)	(303,500)
PROFITS BEFORE INCOME TAXES		34,671,165	35,107,869
Current income tax	(22)	(8,328,780)	(10,028,108)
Deferred tax income (expense)		634,652	(277,736)
PROFITS FOR THE YEAR		26,977,037	24,802,025

-The accompanying notes from (1) to (23) 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 2015

	Paid up capital LE	Treasury Shares LE	Legal reserve LE	Retained earnings LE	Profits for the Year LE	Total LE
Balance as of 1 January 2014	363,542,000	-	17,340,022	21,496,285	27,077,336	429,455,643
Transferred to retained earnings & legal reserve	-	-	1,353,868	14,147,906	(15,501,774)	-
Dividends declared and paid	-	-	-	-	(11,575,562)	(11,575,562)
Profits for the year	-	-	-	-	24,802,025	24,802,025
Balance as of 31 December 2014	363,542,000	-	18,693,890	35,644,191	24,802,025	442,682,106
Balance as of 1 January 2015	363,542,000	-	18,693,890	35,644,191	24,802,025	442,682,106
Treasury shares acquired	-	(23,180,249)	-	-	-	(23,180,249)
Transferred to retained earnings & legal reserve	-	-	1,240,101	11,780,962	(13,021,063)	-
Dividends declared and paid	-	-	-	-	(11,780,962)	(11,780,962)
Profits for the year	-	-	-	-	26,977,037	26,977,037
Balance as of 31 December 2015	363,542,000	(23,180,249)	19,933,991	47,425,153	26,977,037	434,697,932

-The accompanying notes from (1) to (23) 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 2015

	Note	31 December 2015 LE	31 December 2014 LE
CASH FLOWS FROM OPERATING ACTIVITIES			
Profits before income taxes		34,671,165	35,107,869
Depreciation and amortization	(8-9)	788,590	830,930
Loss (Gain) from disposal of fixed assets		3,612	(6,535)
Gain on sale of financial assets at fair value through profit or loss		-	(1,055,595)
		<u>35,463,367</u>	<u>34,876,669</u>
Change in mortgage refinance loans	(5)	(27,124,598)	(17,452,504)
Change in prepayments and other debit balances	(7)	230,641	(203,123)
Change in accrued expenses and other credit balances	(10)	(227,890)	(398,105)
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES		<u>8,341,520</u>	<u>16,822,937</u>
Income tax paid	(22)	(10,028,108)	(8,040,586)
NET CASH FLOWS (USED IN) PROVIDED FROM OPERATING ACTIVITIES		<u>(1,686,588)</u>	<u>8,782,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments in treasury bills		-	(5,959,367)
Proceeds from matured treasury bills more than 90 days		5,959,367	43,326,628
Purchase of financial assets at fair value through profit or loss		-	(31,460,813)
Proceeds from sale of financial assets at fair value through profit or loss		-	32,516,408
Purchase of financial investments held to maturity		-	(10,000,000)
Proceeds from sale of fixed assets		-	6,535
Payments to acquire fixed assets and intangible assets	(8-9)	(640,588)	(507,446)
NET CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES		<u>5,318,779</u>	<u>27,921,945</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of treasury shares		(23,180,249)	-
Term loan repayment	(15)	(18,920,970)	(15,293,880)
Proceeds from term loans	(15)	28,325,084	-
Dividends paid		(11,780,962)	(11,575,562)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		<u>(25,557,097)</u>	<u>(26,869,442)</u>
Net (decrease) increase in cash and cash equivalent during the year		<u>(21,924,906)</u>	<u>9,834,854</u>
Cash and cash equivalent – beginning of the year		<u>82,647,616</u>	<u>72,812,762</u>
CASH AND CASH EQUIVALENT – END OF THE YEAR		<u>60,722,710</u>	<u>82,647,616</u>

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

		31 December 2015 LE	31 December 2014 LE
Cash on hand and at banks	(3)	15,540,043	23,083,979
Treasury bills maturing within 90 days	(4)	45,182,667	59,563,637
		<u>60,722,710</u>	<u>82,647,616</u>

-The accompanying notes from (1) to (23) are an integral part of these financial statements.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 2015 were authorized for issue in accordance with a resolution of the Board of Directors on March 23rd 2016.

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 (2-8) 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 2015

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 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

2-7 Treasury bills and CBE Certificate of Deposits

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

2-8 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 2015

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-9 Mortgage refinance loans

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

2-10 Impairment of assets

Impairment of financial assets

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

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

Impairment of non financial assets

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

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

2-11 Revenue recognition:

• Interest income

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

When:

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

2-12 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.

2-13 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.

2-14 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.

2-15 Financial investments held to maturity

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

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

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

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 year, 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 2015

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-2.4 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 which restrict the company's activity in Real Estate finance to only with its shareholders.

3 CASH ON HAND AND AT BANKS

	31 December 2015	31 December 2014
	LE	LE
<u>Egyptian Pound</u>		
Current accounts	5,940,043	533,979
Time deposits maturing within Three months	<u>9,600,000</u>	<u>22,550,000</u>
	<u>15,540,043</u>	<u>23,083,979</u>

- Time deposits booked at commercial banks in Egypt with an annual average interest rate 8%.

4 INVESTMENTS IN TREASURY BILLS

	31 December 2015	31 December 2014
	LE	LE
Treasury bills maturing before 30 days	33,400,000	15,500,000
Treasury bills maturing after 30 days to 60 days	12,000,000	10,000,000
Treasury bills maturing after 60 days to 90 days	-	35,000,000
Treasury bills maturing after 150 days	-	6,300,000
	<u>45,400,000</u>	<u>66,800,000</u>
Unearned interest	<u>(217,333)</u>	<u>(1,276,996)</u>
	<u>45,182,667</u>	<u>65,523,004</u>

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

5 MORTGAGE REFINANCE LOANS

The Company has outstanding (83) mortgage refinance loans to (10) customers, as follows:

	Short term	Long term	Total 31 December 2015	Total 31 December 2014
	LE	LE	LE	LE
Egyptian Arab Land Bank	12,600,000	7,700,000	20,300,000	30,100,000
Tuameer Mortgage Finance Company	18,155,556	103,082,037	121,237,593	127,792,225
Tamweel Mortgage Finance Company	19,614,983	67,346,310	86,961,293	98,384,093
Egyptian Housing Finance Company	11,485,281	17,202,150	28,687,431	42,598,302
Sakan Company	6,006,073	24,499,677	30,505,750	14,664,112
AlAhly Mortgage Finance Company	2,889,256	7,721,481	10,610,737	3,238,668
Amlak Finance and Real Estate Investments	10,205,103	56,726,206	66,931,309	24,166,666
Housing And Development Bank	8,344,861	81,786,736	90,131,597	77,893,125
National Bank Of Egypt	8,070,589	77,416,765	85,487,354	93,557,941
Banque Misr	1,333,333	15,444,444	16,777,777	18,111,111
	<u>98,705,035</u>	<u>458,925,806</u>	<u>557,630,841</u>	<u>530,506,243</u>

- 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 year represents more than 110 % of the above loans balances (As per EFSA Regulations).
- Facilities are within credit limits approved from concerned authority.

6 FINANCIAL INVESTMENTS HELD TO MATURITY

	31 December 2015	31 December 2014
	LE	LE
<u>Egyptian Pound</u>		
Suez Canal Investment Certificates (mature on 12 September 2019 with an annual interest rate 12% paid on Quarterly basis)	10,000,000	10,000,000
	<u>10,000,000</u>	<u>10,000,000</u>

7 PREPAYMENTS AND OTHER DEBIT BALANCES

	31 December 2015	31 December 2014
	LE	LE
Withholding tax on treasury bills	2,840,877	3,164,719
Accrued interest income	65,358	82,418
Prepaid expenses	234,611	152,761
Security deposit	206,845	183,807
Other debit balances	14,323	8,950
	<u>3,362,014</u>	<u>3,592,655</u>

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

8 INTANGIBLE ASSETS

	31 December 2015 Computer software LE	31 December 2014 Computer software LE
Cost		
At the beginning of the Year	1,954,468	1,801,168
Additions during the Year	295,208	153,300
At the end of the Year	<u>2,249,676</u>	<u>1,954,468</u>
Accumulated amortization		
At the beginning of the Year	(1,496,108)	(1,132,045)
Amortization for the Year	(273,808)	(364,063)
At the end of the Year	<u>(1,769,916)</u>	<u>(1,496,108)</u>
Net book value		
At the end of the Year	<u>479,760</u>	<u>458,360</u>

- Additions during the year represent computer software purchased.

9 FIXED ASSETS

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

- There is no Pledge over the fixed assets.

- The gross carrying amount of fully depreciated fixed assets that are still in use amounted to LE 4,645,540 as of 31 December 2015 (31 December 2014: LE 3,380,335)

10 ACCRUED EXPENSES AND OTHER CREDIT BALANCES

	31 December 2015 LE	31 December 2014 LE
Accrued interest on term loans	4,744,305	4,933,717
Tax Authority – payroll tax	124,399	151,886
Tax Authority – withholding tax	3,508	3,872
Accrued expenses	119,606	116,000
Accrued EFSA development fees	34,148	33,876
Social Insurance Authority	15,700	15,348
Other credit balances	5,006	19,863
	<u>5,046,672</u>	<u>5,274,562</u>

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

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11 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
National Bank of Kuwait	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
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
	300466	44000	344,466,000	94.75%
Egyptian Mortgage Refinance Company (Treasury Shares)	-	19076	19,076,000	5.25%
	300466	63076	363,542,000	100%

- Pursuant to the company's commitment to purchase IFC shares upon the request of IFC, The Company has purchased IFC shares of 19076 preferred shares. The fair value was EGP 1211.64 per share, based on an independent financial advisor report dated 10/12/2014. Transfer of ownership was completed after the approval of the Egyptian Stock Exchange during the session of 19/1/2015. The Company received a notice of transfer of ownership dated 1/2/2015 (Treasury Shares are booked as at cost plus EGP 52.004 account fees and commissions). As per article No 48 of company's law no 159 of 1981, the company should dispose those treasury shares within a maximum period of one year from purchase date or decrease capital. (Note 24).
- The company sold the treasury shares on 18 January 2016 represented in 19,076 preferred shares of which 17,076 shares were sold to Central bank of Egypt and 2,000 shares were sold to Mortgage Finance Guarantee and Subsidy fund at fair value per share EGP 1.248.4 based on independent financial advisor report of the fair value of the company's share as of 24 November 2015.
- The company increased its issued capital by EGP 1.000.000 through increasing Amlak Finance and Real Estate Investment capital from EGP 1.000.000 to EGP 2.000.000 and capital increase was recorded in the commercial register on 18 February 2016.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

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12 LEGAL RESERVE

Legal reserve balance amounting to LE 19,933,991 as of 31 December 2015 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 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.
- 4) 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 122,562 new shares. in accordance with the resolution of the board of directors held on 2 July 2012.
- 5) The transfer of 5% of the net profits for the years 2007 up to 2014 as per AGM Decisions.

13 GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2015	31 December 2014
	LE	LE
Salaries and wages	9,567,603	9,351,078
Premises rent	1,512,376	1,421,407
Professional fees	399,073	465,397
IT support contracts	427,904	383,108
Tax, legal and other consultants	107,274	86,267
Cleaning and security	141,526	126,006
EFSA development fees	133,638	133,622
Insurance	99,945	120,400
Employees training	52,473	74,968
Stationary and printing materials	25,891	37,527
Repair & maintenance	83,420	79,895
Electricity	55,194	46,912
Telephone and mobile	70,289	54,863
Internet and ADSL	43,484	32,970
Entertainment, meals and public relations	42,283	27,778
AGM & EGM Meeting Expenses	18,652	9,166
Legal expenses	16,212	17,338
Travel and transportation	2,861	4,083
Donations	500,000	500,000
Other expenses	170,113	101,515
	<u>13,470,211</u>	<u>13,074,300</u>

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

14 FINANCE EXPENSES

	31 December 2015	31 December 2014
	LE	LE
Interest on Overdraft Account	102,212	47,359
Interest on term loans	17,347,208	17,419,464
Bank charges	57,050	27,479
	<u>17,506,470</u>	<u>17,494,302</u>

15 TERM LOANS

	Non-Current	Current	Total	Total
	LE	LE	31 December 2015	31 December 2014
	LE	LE	LE	LE
Loan from Ministry of International Cooperation	145,377,540	15,293,880	160,671,420	175,965,300
Loans from United Bank	15,256,299	9,441,695	24,697,994	-
	<u>160,633,839</u>	<u>24,735,575</u>	<u>185,369,414</u>	<u>175,965,300</u>

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 L.E. 214,200,000 to assist in financing the project as described in note (16) 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 2015 amounted to LE 15,293,880.

The loan balance as of 31 December 2015 amounted to LE 160,671,420 (31 December 2014: LE 175,965,300)

B) An agreement was made between Egyptian Mortgage Refinance Company (the borrower) and United Bank (the lender) whereby the bank agreed to grant the Company credit facilities with ceiling amount of EGP 63,000,000 as follow:

- Amount of EGP 3,000,000 as short-term loans (over draft).
- Amount of EGP 60,000,000 as medium term loans (3 years).

The loans carry an interest rate of Central Bank of Egypt – Corridor lend in addition to 1% including a commission on highest debit balance valid to be withdrawn from April, 1st 2015 to September, 30th 2016. The outstanding balance as of 31 December 2015 amounted to LE 24,697,994 (four medium term loans of EGP 17,250,000, EGP 1,947,994, EGP 3,000,000 and EGP 2,500,000).

-The loan amount repaid during the year ended 31 December 2015 amounted to LE 3,627,090.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

16 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 (15-A) above.

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

17 EXPENDITURE COMMITMENTS

	31 December 2015	31 December 2014
	LE	LE
Operating lease commitments		
Future minimum lease payments:		
Within one year:		
Operating lease commitment	1,678,752	1,210,678
Less: Advance payment of operating lease	-	-
Net operating lease commitment within one year	<u>1,678,752</u>	<u>1,210,678</u>
After one year but not more than five years	2,989,712	48,000
More than five years	-	-
Total operating lease expenditure contracted for at the balance sheet date	<u><u>4,668,464</u></u>	<u><u>1,258,678</u></u>

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 1,476,861 and the Company objected on the assessment and the issue was transferred to the Internal Committee and the company objected with deemed tax claim.
- Currently the company is preparing for tax inspection from 2011 till 2012.

b) Salary tax

- The Company's records were inspected for the years from 2006 till 2008. The Company objected on the assessment and the issue was transferred to the Internal Committee. The Internal Committee verdict accepted the Company's objection and the amount owed to the Company. The tax authority approved LE 4,638 credit balance to be deducted from the next years.
- The Company received estimated tax letter for the company's records from 2009 till 2010 and the Company objected on the assessment and is currently underway to re-examine the company's records again.
- No tax inspection took place for the Company's records for the years from 2011 till 2015.

c) Stamp duty tax

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

d) Taxes on Treasury bills

- Taxes on Treasury Bills are deducted by the banks at maturity and tax amount is transferred to the tax authority (Ministry of finance) on behalf of the company. An amount of LE 1,437,040 was deducted during the years 2009 and 2010 are currently included under other debit balances till final settlement for years 2009 and 2010.

19 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 financial statements.

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

20 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.

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 financial statements. Expenditure commitments in foreign currency are disclosed under operating lease commitment in note (17) to the 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:

	31 December 2015	31 December 2014
	LE	LE
Bank balance	15,540,043	23,083,979
Mortgage refinance loans	557,630,841	530,506,243
	<u>573,170,884</u>	<u>553,590,222</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.

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 from 2014.

21 DEFERRED TAX LIABILITIES

	Liabilities 31 December 2015	Liabilities 31 December 2014
	LE	LE
Depreciation and amortization	(16,312)	(27,042)
Accrued interest income on treasury bills	-	(623,922)
Net deferred tax liabilities	<u>(16,312)</u>	<u>(650,964)</u>

EGYPTIAN MORTGAGE REFINANCE COMPANY (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

22 RECONCILIATION OF THE EFFECTIVE INCOME TAX RATE

	31 December 2015	31 December 2014
	LE	LE
Profits before income tax	<u>34,671,165</u>	<u>35,107,869</u>
Add/subtract the tax effect of below items:		
Other additions - accrued interest income on 2012/2013 treasury bills	-	1,326,834
Other additions - accrued interest income on 2013/2014 treasury bills	2,495,688	(2,495,688)
Other deductions - accrued interest income on 2014/2015 treasury bills	-	-
Other deductions – tax exempted income on Suez Canal IC's	(1,198,402)	(1,420,527)
Other Revenue	-	(6,535)
Payroll tax difference	12,913	-
Loss on fixed assets	3,612	-
Depreciation and amortization	32,061	64,446
Real estate tax	66,321	65,235
Cost of exempted income	554,441	648,559
Board of directors allowance	<u>379,000</u>	<u>303,500</u>
	<u>37,016,799</u>	<u>33,593,693</u>
Income tax with rate (25% till 1,000,000)	-	250,000
Income tax with rate (30% more than 1.000,000)	-	9,778,108
Income tax rate 22.50%	<u>8,328,780</u>	-
Income tax for the year at the effective tax rate	<u>8,328,780</u>	<u>10,028,108</u>
Effective tax rate	<u>24.02%</u>	<u>28.56%</u>

Income Tax Payable

	31 December 2015	31 December 2014
	LE	LE
Beginning balance	10,028,108	8,040,586
Accrued during the year	8,328,780	10,028,108
Settled during the year	(10,028,108)	(8,040,586)
Ending balance	<u>8,328,780</u>	<u>10,028,108</u>

23 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 2015	31 December 2014
	LE	LE
Interest income and commissions on mortgage refinance loans	59,895,658	55,052,010
Interest income on time deposits and current accounts	851,248	637,677
Interest expense on term loans	(1,384,081)	-
Interest expense on overdraft account	(102,212)	(47,359)
Bank charges	(14)	(24,758)