Mashreq Al-Islami Finance Company (P.J.S.C.)
Dubai - United Arab Emirates

Report and financial statements
for the year ended 31 December 2023

Mashreq Al-Islami Finance Company (P.J.S.C.)

Contents

Mashreq Al-Islami Finance Company (P.J.S.C.)

BOARD OF DIRECTORS' REPORT

The Board of Directors have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2023.

Incorporation and registered offices

Mashreq Al-Islami Finance Company (P.J.S.C.) (the "Company") is a private joint-stock company and is a subsidiary of Mashreqbank PSC (the "Parent Company"). The Company was incorporated in the United Arab Emirates under a trade license issued by the Department of Economic Development of the Government of Dubai. The address of the registered office of the Company is P.O. Box 1250, Dubai, United Arab Emirates.

Principal activities

The Company carries out financing activities through various Islamic instruments, in accordance with Islamic Shari'ah principles that include prohibition of interest, as determined by the Company's Internal Shari'ah Supervision Committee.

Financial position and results

The financial position and results of the Company for the year ended 31 December 2023 are set out in the accompanying financial statements.

Directors

The following were the Directors of the Company for the year ended 31 December 2023:

- H.E. Abdul Aziz Abdulla Al Ghurair
- Ali Rashed Lootah
- Ali Raza Khan
- Aladdin Al Deesi
- Ibrahim Al Mheiri

Auditors

The financial statements for the year ended 31 December 2023 have been audited by Deloitte & Touche (M.E.).

By order of the Board of Directors

Ibrahim Al Mheiri
29 March 2024

Deloitte & Touche (M.E.)
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INDEPENDENT AUDITOR'S REPORT

The Shareholder
Mashreq Al-Islami Finance Company (P.J.S.C.)
Dubai
United Arab Emirates

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified opinion

We have audited the financial statements of **Mashreq Al-Islami Finance Company (P.J.S.C.)** (the "Company"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statement, including material accounting policy information.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards) (IFRSs).

Basis for qualified opinion

Other assets, which are carried in the statement of financial position at AED 0.1 million (2022: AED 58.2 million), include properties held for sale of nil (2022: AED 58.0 million). Management has not stated properties for sale as at 31 December 2023 at the lower of cost or net realisable value but has stated properties for sale at nil as at 31 December 2023, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount. Management has not stated properties for sale as at 31 December 2022 at the lower of cost or net realisable but has stated properties for sale at the amount reported as at 31 December 2021, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount.

Management has not presented properties held for sale separately in the statement of financial position but has presented properties held for sale as part of other assets, which constitutes a departure from IFRSs. The Company's records indicate that had management presented properties held for sale separately in the statement of financial position, an amount of AED nil (2022: AED 58.0 million) would have been required to be presented. Accordingly, other assets would have been reduced by AED nil (2022: AED 58.0 million)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the other ethical requirements that are relevant to our audit of the company's financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholder of Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai (continued)

Other information

The Managing Director is responsible for the other information. The other information comprises the Managing Director's report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

Other matter

The financial statements of the Company for the year ended 31 December 2022 were audited by another auditor who expressed a modified opinion on those statements on 31 March 2023 relating to the same matters as described in the Basis for qualified opinion section of our report.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal decree Law No. (32) of 2021, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

to the Shareholder of Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit 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 internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal decree Law No. (32) of 2021, we report that for the year ended 31 December 2023:

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal decree Law No. (32) of 2021
- the Company has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Company's books of account;
- the Company has neither purchased nor sold any shares during the year;
- note 13 to the financial statements of the Company discloses material related party transactions and balances, and the terms under which they were conducted; and
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2023 with any of the applicable provisions of the UAE Federal decree Law No. (32) of 2021 or in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2023.

Deloitte & Touche (M.E)

Musa Ramahi
Registration No.: 872
29 March 2024
Dubai
United Arab Emirates

Mashreq Al-Islami Finance Company (P.J.S.C.)

Statement of financial position
as at 31 December 2023

	Notes	2023 AED'000	2022 AED'000
ASSETS			
Cash and cash equivalents	5	**314,187**	51,562
Islamic financing products measured at amortised cost	6	**795,533**	1,109,519
Other assets	7	**130**	58,151
Total assets		**1,109,850**	1,219,232
LIABILITIES AND EQUITY			
Liabilities			
Due to Parent Company	9	**214,125**	374,045
Other liabilities	8	**3,635**	4,242
Total liabilities		**217,760**	378,287
Equity			
Issued and paid-up share capital	10	**500,000**	500,000
Statutory reserve	11	**49,183**	44,068
Retained earnings		**342,907**	296,877
Total equity		**892,090**	840,945
Total liabilities and equity		**1,109,850**	1,219,232

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Ibrahim Al Mheiri

The accompanying notes form an integral part of these financial statements.

Mashreq Al-Islami Finance Company (P.J.S.C.)

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Income			
Income from Murabaha		**623**	802
Income from Ijarah		**51,940**	46,144
Total income from Islamic financing products measured at amortised cost		**52,563**	46,946
Profit income on certificate of deposits		**2,665**	836
Fees and commission income	12	**1,598**	1,375
Other income	7	**10,575**	-
Total income		**67,401**	49,157
Expenses			
General and administrative expenses	13	**(24,579)**	(26,226)
Reversal of allowance for impairment, net	14	**8,323**	1,287
Total expenses		**(16,256)**	(24,939)
Profit for the year		**51,145**	24,218
Other comprehensive income		**-**	-
Total comprehensive income for the year		**51,145**	24,218

The accompanying notes form an integral part of these financial statements.

Mashreq Al-Islami Finance Company (P.J.S.C.)

Statement of changes in equity
for the year ended 31 December 2023

	Issued and paid up share capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2021	500,000	41,646	275,081	816,727
Profit for the year	-	-	24,218	24,218
Total comprehensive income for the year	-	-	24,218	24,218
Transfer to statutory reserve (Note 11)	-	2,422	(2,422)	-
Balance at 31 December 2022	500,000	44,068	296,877	840,945
Profit for the year	-	-	51,145	51,145
Total comprehensive income for the year	-	-	51,145	51,145
Transfer to statutory reserve (Note 11)	-	5,115	(5,115)	-
Balance at 31 December 2023	**500,000**	**49,183**	**342,907**	**892,090**

The accompanying notes form an integral part of these financial statements.

Mashreq Al-Islami Finance Company (P.J.S.C.)

Statement of cash flows
for the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Cash flows from operating activities			
Profit for the year		**51,145**	24,218
Adjustments for			
Reversal of allowance for impairment, net	14	**(8,323)**	(1,287)
Gain on sale of other assets - Properties acquired in settlement of debt	7	**(10,575)**	-
Operating cash flows before changes in operating assets and liabilities		**32,247**	22,931
Changes in assets and liabilities			
Decrease in Islamic financing products measured at amortised cost	6	**322,309**	56,722
(Increase)/decrease in other assets	7	**(4)**	62
(Decrease)/increase in other liabilities	8	**(607)**	1,808
Net cash generated from operating activities		**353,945**	81,523
Cash flows from investing activity			
Net proceeds from sale of other assets – acquired in settlement of debt	7	**68,600**	-
Net cash generated from investing activity		**68,600**	-
Cash flows from financing activity			
Decrease in due to Parent Company	9	**(159,920)**	(81,379)
Net cash used in financing activity		**(159,920)**	(81,379)
Net increase in cash and cash equivalents		**262,625**	144
Cash and cash equivalents as at 1 January		**51,562**	51,418
Cash and cash equivalents as at 31 December	5	**314,187**	51,562

1. General information

Mashreq Al-Islami Finance Company (P.J.S.C.) (the "Company") is a private joint-stock company and incorporated in the United Arab Emirates under a trade license issued by the Department of Economic Development of the Government of Dubai.

The address of the registered office of the Company is P.O. Box 1250, Dubai, United Arab Emirates.

The shareholders and their respective shareholdings are as follows:

	%
Mashreqbank PSC	99.70
Injaz Services FZ-LLC	0.10
Abdulla Bin Ahmed Al Ghurair	0.10
Abdul Aziz Abdulla Al Ghurair	0.10
	100.00

The Company carries out financing activities through various Islamic products & instruments, in accordance with Islamic Shari'ah principles that include prohibition of interest, as determined by the Company's Internal Shari'ah Supervision Committee.

Internal Shari'ah Supervision Committee

The Company's business activities are subject to the supervision of the Internal Shari'ah Supervision Committee ("ISSC"). The ISSC is an independent body of Shari'ah Scholars expert in the field of Islamic financial jurisprudence. The ISSC reviews and directs the Company for its activities in accordance with the Shari'ah rules and principles, the resolutions and standards issued by the UAE Central Bank's Higher Shari'ah Authority, and the Shari'ah Standards published by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRS applied on the financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted

The Company has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New standards, amendments and interpretations	***Effective for annual periods beginning on or after***
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) The amendments add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.	1 January 2024
Lack of Exchangeability (Amendments to IAS 21) The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.	1 January 2025
Amendments to IAS 1 Presentation of Financial Statements relating to Classification of Liabilities as Current or Non-Current The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments also defer the effective date of the January 2020 amendments by one year, so that entities would be required to apply the amendment for annual periods beginning on or after 1 January 2024.	1 January 2024

There are no other relevant applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Company's financial year beginning on 1 January 2023 that would be expected to have a material impact on the financial statements of the Company.

3. Summary of significant accounting policies

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE").

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Company is in the process of complying with the provisions of the Companies Law.

3. Summary of significant accounting policies (continued)

Basis of preparation

The financial statements of the Company have been prepared on the historical cost basis except for properties which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands AED, except where otherwise indicated.

In September 2021, the Company obtained approval from the Central Bank of the UAE (“CBUAE”) for the voluntary withdrawal of its CBUAE license, subject to the Company fulfilling conditions outlined by the CBUAE. Further, in November 2021, the shareholders of the Company approved a special resolution to liquidate the Company and transfer its assets and liabilities to the Parent Company.

Due to existing litigations curtailing the liquidation process across Emirates and assets of the Company existing in Abu Dhabi (i.e., not in the Dubai - the Company’s Emirate of incorporation), management approached the CBUAE for a letter of no objection. This was for the Company to retain its commercial license issued by the Dubai Economic Department ("DED"). This letter was granted by the CBUAE on 7 March 2022 on the conditions that (a) reference to financing activities is removed from the activities listed in the Company’s DED license; (b) the words "Finance Company" are removed from the legal name of the Company; and (c) any references to the CBUAE on the Company’s website are removed. The exposures retained by the Company will remain until such time they are settled or run off, whichever is earlier.

During the AGM of the Company held on 17 April 2023, the Shareholders ratified to, (a) revoke the previous decision to liquidate the Company; and (b) to approve converting the legal status of the Company from PJSC to LLC. However, the conversion of the legal status is still undergoing. Accordingly, the financial statements have been prepared on a going concern basis.

The principal accounting policies adopted are set out below.

Revenue recognition

(a) Income from Islamic financing and investments products

The Company’s policy for recognition of income from Islamic financing and investments products is described below in section “Islamic financing products” within Note 3.

(b) Fee and commission income and expenses

Fees and other income from financing services are recognized on an accrual basis as the service is performed, when it is probable that the associated economic benefits will flow to the Company and a reliable estimate of amount can be made. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate.

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the statement of profit or loss and other comprehensive income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Summary of significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognised for financial assets measured at amortised cost, as described in Note 17, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

i) Classification of financial assets

The Company has applied IFRS 9 which has the following measurement categories:

- Fair value through profit or loss ("FVTPL");
- Fair value through other comprehensive income ("FVOCI"); and
- Amortised cost

The classification requirement for financial assets and equity instruments are described below.

Financial assets are those instruments that meet the definition of a financial liability from the issuer's perspective, such as investments in Islamic financing instruments.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

i) Classification of financial assets (continued)

Classification and subsequent measurement of financial assets depend on:

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Based on these factors, the Company classifies its financial instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ("SPPP"), and that are not designated at fair value through profit or loss, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 17. Profit income from these financial assets is included in "Income from Islamic financing products measured at amortised cost" using the effective profit rate method.
- Fair value through other comprehensive income ("FVTOCI"): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through Other Comprehensive Income ("OCI"), except for the recognition of impairment gains and losses, profit income and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.
- Fair value through profit or loss ("FVTPL"): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss and other comprehensive income within 'Net investment income' in the period in which it arises, unless it arises from financial assets that were designated at fair value or which are not held for trading, in which case they are presented separately in the statement of profit or loss and other comprehensive income.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

i) Classification of financial assets (continued)

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether financial instruments' cash flows represent solely payments of principal and profit (the 'SPPP test'). In making this assessment, the Company considers whether contractual cash flows are consistent with a basic financing arrangement i.e., profit includes only consideration for the time value of money, credit risk, other basic financing risks and a profit margin that is consistent with basic financing arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies financial assets when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and there were no material reclassifications during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Company's right to receive payments is established.

ii) Measurement methods

Amortised cost and effective profit rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, profit or discounts and fees paid or received that are integral to the effective profit rate, such as origination fees.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

ii) Measurement methods (continued)

Amortised cost and effective profit rate (continued)

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective profit rate. Any changes are recognized in the statement of profit or loss.

Profit income is calculated by applying the effective profit rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which profit income is calculated by applying the effective profit rate to their amortised cost (i.e., net of the expected credit loss provision).

iii) Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial assets carried at amortised cost that are Islamic financing instruments. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 17 provides more detail of how the expected credit loss allowance is measured.

iv) Modification of financing facilities

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of financings to customers. Where this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the customer is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity-based return that substantially affects the risk profile of the facility.
- Significant extension of the financing term when the customer is not in financial difficulty.
- Significant change in the profit rate.
- Change in the currency the financing is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing facility.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

iv) Modification of financing facilities (continued)

If the terms are substantially different, the Company derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate.

(v) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either,

- the Company transfers substantially all the risks and rewards of ownerships, or
- the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

- has no obligation to make payments unless it collects equivalent amounts from the assets;
- is prohibited from selling or pledging the assets; and
- has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities

(i) Classification and subsequent measurement

Financial liabilities (including balance due to bank) are initially recognised as fair value and subsequently measured at amortised cost.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires).

3. Summary of significant accounting policies (continued)

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore:

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the statement of profit or loss and other comprehensive income;
- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in statement of profit or loss and other comprehensive income;
- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the statement of profit or loss and other comprehensive income; and
- for foreign currency denominated financial instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts or when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Islamic financing products

Any conventional terminologies that are used only for reasons of legal requirement, explanation and/or clarity will be considered as replaced with its Shari'ah compliant equivalent and will not impact the Islamic products or documentation in terms of their Shari'ah compliance.

All Islamic financing products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

Murabaha is a sale of goods with an agreed upon profit mark-up on the cost.

The arrangement is referred to as a Murabaha to the Purchase Orderer where the company sells to a customer a commodity or an asset, which the company has purchased and acquired, based on a promise received from customer.

Ijarah

Ijarah is a contract, or part of contractual agreement, that transfers the usufruct of an asset (the underlying asset) for a period of time in exchange for an agreed consideration, from lessor (the owner of underlying asset i.e., the company) to a lessee (the customer).

This may involve a hybrid Ijarah arrangement (known as Ijarah Muntahia Bittamleek) which, in addition to the Ijarah contract, includes a promise (by the company) resulting in transfer of the ownership of the underlying asset to the lessee (the customer) through a sale or gift – independent of Ijarah Contract.

3. Summary of significant accounting policies (continued)

Islamic financing products (continued)

(i) Definitions (continued)

Wakalah

Wakalah is an act of one party (principal) delegating another party (the agent) to perform a permissible activity on his behalf. This may involve Al-Wakalah Bi Al-Istithmar, in which the Company appoints another person an agent to invest its funds with an intention to earn profit, in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakalah.

(ii) Accounting policy

Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements [as explained in Note 17(a). Islamic financing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from Islamic financing products are recognised in the statement of profit or loss and other comprehensive income using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Ijarah

Ijarah income is recognised on effective profit rate basis over the lease term.

Wakalah

Estimated income from Wakalah is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated. They are measured at the lower of their carrying amount and fair value less costs to sell.

3. Summary of significant accounting policies (continued)

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balance in current account and certificate of deposit with original maturity of less than three months. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss ("ECL") is further detailed in Note 17.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

5. Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank held with the Parent Company and certificate of deposit held with the Central Bank of the UAE, which are maturing within three months from the value date of the deposit:

	2023	2022
	AED'000	AED'000
Cash at banks		
Current accounts (Note 9)	**264,187**	1,562
Balances with central bank		
Certificate of deposit	**50,000**	50,000
	314,187	51,562

As at 31 December 2023 and 2022, the balances with bank in current accounts are profit free and repayable on demand.

Certificate of deposit held with the UAE Central Bank is at an average profit rate of 4.50% (31 December 2022: 0.20%) per annum.

6. Islamic financing products measured at amortised cost

(a) The analysis of the Company's Islamic financing products measured at amortised cost is as follows:

	2023	2022
	AED'000	AED'000
Financing		
Murabaha	**9,391**	11,018
Ijarah	**814,948**	1,142,095
	824,339	1,153,113
Less: Unearned income	**(2,401)**	(3,038)
Allowance for impairment	**(26,405)**	(40,556)
	795,533	1,109,519

(b) The Company's Islamic financing products measured at amortised cost include facilities extended to retail customers only.

(c) Allowance for impairment movement:

	2023	2022
	AED'000	AED'000
At 1 January	**40,556**	48,511
Reversal during the year (Note 14)	**(10,174)**	(4,904)
Reversal of profit in suspense	**(3,977)**	(3,051)
	26,405	40,556

6. Islamic financing products measured at amortised cost (continued)

(d) In certain cases, the Company continues to carry certain classified doubtful financing and delinquent accounts on its books which have been fully provided. Profit is accrued on most of these accounts for litigation purposes only. As at 31 December 2023 and 2022, legal proceedings are pursued for some of these accounts by the Company in the normal course of business.

(e) In determining the recoverability of Islamic financing products, the Company considers any change in the credit quality of the Islamic financing products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

7. Other assets

	2023 **AED'000**	2022 AED'000
Properties held for sale	**-**	58,025
Profit income receivable certificate of deposits	**47**	31
Takaful income receivable	**73**	82
Prepayments and others	**10**	13
	130	58,151

During the year, the Company fully impaired the properties held for sale which were included in other assets. These properties were carried at net value of AED 58 million at the beginning of the year. The additional impairment of AED 58 million was taken in order to comply with regulatory requirements to impair the properties to the extent of 100% as set by the UAE Central Bank. The properties were written off during the year.

The properties are registered in the name of the Parent Company on trust and for the benefit of the Company. Subsequent to the write off, during the year, plots of this land property were sold for net sale proceeds of AED 69 million.

8. Other liabilities

	2023 **AED'000**	2022 AED'000
Accrued expenses	**2,588**	2,969
Commission income collected in advance	**957**	1,201
Others	**90**	72
	3,635	4,242

Accrued expenses include AED 2.43 million (2022: AED 2.82 million) for management fee expense payable to the Parent Company (Notes 9).

9. Related party balances and transactions

The Company enters into transactions with the parties that fall within the definition of a related party as contained in International Accounting Standard 24 (IAS 24): Related Party Disclosures. Related parties comprise companies and entities under common ownership and/or common management / control and key management personnel.

Related party balances included in the statement of financial position are as follows:

	2023	2022
	AED'000	AED'000
Parent company		
Cash at bank - current accounts (Note 5)	**264,187**	1,562
Accrued expenses (Note 8)	**2,432**	2,825
Due to parent company	**214,125**	374,045

Related party transactions for the year are as follows:

	2023	2022
	AED'000	AED'000
Parent company		
Management fees (Note 13)	**24,410**	26,068

Management fee represents amount paid by the Company in lieu of services rendered by the Parent Company for the IT support, risk management and compliance, and other administrative functions.

Due to Parent Company

Amount due to Parent Company is payable to the ultimate Parent Company that include balances as follows:

	2023	2022
	AED'000	AED'000
Demand	**1,272**	161,192
Time	**212,853**	212,853
	214,125	374,045

Demand deposit includes an unsecured overdraft facility, which is without any fixed repayment schedule. No profit is charged on the amount due to Parent Company.

Time deposit includes deposits from the Parent Company which is renewable on a quarterly basis and on which no profit is charged.

10. Issued and paid-up share capital

The authorised, issued and fully paid-up capital of the Company comprises of 5,000,000 shares of AED 100 each. As at 31 December 2023 and 2022, share capital is held by the following parties:

	Number of shares	**Amount AED'000**
Mashreqbank PSC - U.A.E.	**4,985,000**	**498,500**
Injaz Services FZ LLC - U.A.E.	**5,000**	**500**
Abdul Aziz Abdulla Al Ghurair	**5,000**	**500**
Abdulla Bin Ahmed Al Ghurair	**5,000**	**500**
	5,000,000	**500,000**

11. Statutory reserve

As required by the Companies Law and the Company's Articles of Association, 10% of the profit for the year is transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid-up share capital. This reserve is not available for distribution except in the circumstances as stipulated by U.A.E. Commercial Companies Law.

12. Fees and commission income

	2023 AED'000	2022 AED'000
Takaful related income	**25**	144
Prepayment and settlement income	**998**	916
Processing fees and others	**575**	315
	1,598	1,375

13. General and administrative expenses

	2023 AED'000	2022 AED'000
Management fees	**24,410**	26,068
Other expenses	**169**	158
	24,579	26,226

14. Allowance for impairment, net

	2023 AED'000	2022 AED'000
Reversal of provision on Islamic financing products measured at amortised cost (Note 6)	**(10,174)**	(4,904)
Provision on Islamic financing products measured at amortised cost written off during the year	**3,387**	7,013
Recovery of Islamic financing product measured at amortised cost previously written off	**(1,536)**	(3,396)
	(8,323)	(1,287)

15. Contingencies

In prior years, letters of guarantee were issued on behalf of the Company by the Parent Company without any commission charges, in favor of Central Bank of the U.A.E., in consideration of the license granted to the Company. The Central Bank of the U.A.E. has released the requirement of such guarantees in 2020.

16. Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the funding and equity balance. The Company's overall strategy remains unchanged from the year ended 31 December 2022.

17. Risk management

The Parent Company sets and monitors the risk management function of the Company. The Company has risk management infrastructure supported by adoption of the best practices in the field of risk management to manage and monitor the following major risks arising out of its day-to-day operations:

a) Credit risk
b) Liquidity risk
c) Market risk
d) Operational risk

The Board of Directors (the "Board") through the Board Risk Committee (the "BRC") has overall responsibility for the establishment and oversight of the Company's risk management framework and they are assisted by various committees including the Executive Management Committee ("ExCo"), Enterprise Risk Committee ("ERC"), Assets and Liabilities Committee ("ALCO"), Regulatory Compliance Committee ("RCC") and Information Security Committee ("ISC"). These committees are appointed by the Board and assist the Board in management of risk in the Company including review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management within the Company, the ERC assists the Board/Board Risk Committee in discharging these responsibilities including identifying, analysing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Company.

17. Risk management (continued)

The ERC has overall responsibility for the oversight of risk management framework and the risk appetite of the Company. The ERC is also responsible for the approval of credit policies and procedures of the Company and to ensure adherence to the approved policies and close monitoring of different risks within the Company. The ERC also approves policy exceptions, establishes and monitors various concentration limits (such as limits for country, industry sector etc.) as part of the risk appetite and reviews credit portfolio to manage asset quality.

The Risk Management Group ("RMG") is independent of business groups and is led by a Chief Risk Officer, with responsibility for deploying an enterprise-wide risk management framework and oversight of all material risks within the Company. The RMG is responsible for defining the framework for management of all material risks within the Company.

The Internal Audit Group ("IAG") acts as the third line of defence function in the Parent Company, independent from both the business units ("first line of defence") and Parent Company's Operational risk team ("second line of defence"). IAG provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures in the Company and the effectiveness of risk management processes. This is undertaken through periodic reviews of all risk-taking units, in addition to Risk Management.

(a) Credit risk management

Credit risk is the risk of suffering financial loss as a result of any of the Company's customers failing or unwilling to fulfil their contractual obligations to the Company. Credit risk related to the Company arises from Islamic financing products.

Credit risk is the single largest risk from the Company's business of extending Islamic financing products; management therefore carefully manages its exposure to credit risk. Credit risk management and controls are centralized under the CCO function with regular governance and monitoring exercised by the Board Risk Committee ("BRC"), Board Credit Committee ("BCC") and Enterprise Risk Committee ("ERC").

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using the concept of Expected Loss which requires the following measures:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)

Under IFRS 9 expected loss is replaced by expected Credit Loss (ECL), which is based on macro adjusted PD, LGD. Additionally, it also captures deterioration and lifetime likelihood of defaults.

Credit risk grading

The company uses specific internal rating models tailored to various industry segments/counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures) is fed into this rating model. This is supplemented with external data input into the model. The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

The Risk Rating system for performing assets ranges from 1 to 25, each grade being associated with a PD. Non-performing borrowers are rated 50, 60, 70 and 80, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful, Loss classifications and 99 for Write-off.

17. Risk management (continued)

(a) Credit risk management (continued)

Borrower risk ratings are mapped into the following 5 Grades:

Grade	Risk Rating	Definition
Grade 1	1-12	Low Risk
Grade 2	13-17	Satisfactory Risk
Grade 3	18-20	High Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80	Impaired

Expected credit loss measurement

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition of a facility as summarised below:

- If a significant increase in credit risk (“SICR”) since initial recognition is identified, then the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit impaired. Amongst other factors, the identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run. Other factors include restructuring and account irregularities.
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’.
- Financial assets in Stage 1 have their ECL measured at an amount equal to lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 have their ECL measured based on expected credit losses on a lifetime basis.
- Financial assets in Stage 3 are measured at an amount equal to lifetime expected credit losses or specific provision.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the company.

Significant increase in credit risk (SICR)

The Company considers a financial asset to have experienced a significant increase in credit risk when a significant change in one-year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date. In addition, a range of qualitative criteria are also considered.

Quantitative criteria

For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- Finance rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Backstop

A borrower that is more than 30 days past due on its contractual obligations is presumed to have a significantly increased credit risk as a backstop unless this presumption can be reasonably rebutted on the basis of supportable forward-looking information. The borrower is also flagged in the system and is therefore subject to closer monitoring.

17. Risk management (continued)

(a) Credit risk management (continued)

Definition of default and credit-impaired assets

The Company defines a facility in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

According to the Basel definition, default is considered to have occurred with regards to particular obligors when either one of the following events have taken place:

- The Company considers that the obligor is unlikely to pay its credit obligation to the Company in full without recourse by the Company to actions like realizing security (if held).
- The Company puts the credit obligation on a non-accrued status.
- The Company makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Company taking on the exposure.
- The Company sells the credit obligation at a material credit-related economic loss.
- The Company consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, profit and other fees.
- The Company has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Company.
- The obligor is past due more than 90 days on any material credit obligation to the Company.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Company's expected loss calculations.

An instrument is considered to no longer be in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

Measuring ECL - Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Company has adopted a forward exposure method for computing the ECL for each facility. The Company has opted for a monthly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a customer defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

17. Risk management (continued)

(a) Credit risk management (continued)

Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)

- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of product, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the financing.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective profit rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

During economically challenging periods, the Company may choose to increase the scenario weightage of the pessimistic scenario under guidance from respective regulatory authorities in order to maintain higher level of ECL provisions and lower the scenario weightage of pessimistic scenario once a favourable trend is noticed in the macro-economic climate.

The company continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The company is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information. The macroeconomic data for IFRS 9 PDs term structure is getting updated every 6 months. The update was last made in October 2023 based on the September 2023 macros.

The Company has implemented risk rating models since 2005 which has enabled the Company to rate borrowers based on their financial and qualitative information. The segmentation of these models was revisited in 2021 to introduce a new corporate model to rate large corporates. Ratings from rating models are used as an input into IFRS 9 macroeconomic models to derive a PD term structure for each rating grade in the IFRS 9 ECL computation.

In 2023, the Company has validated the IFRS 9 macroeconomic models for with additional data points in alignment with Model Risk Management policy.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayments financing products, this is based on the contractual repayments owed by the customer over a 12-month period or lifetime basis.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.

17. Risk management (continued)

(a) Credit risk management (continued)

Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different customers. These LGDs are influenced by collection strategies.

The Company has revised the Wholesale LGD framework during 2020 in order to reflect recent recovery experience and additional admissible security types. Forward-looking economic information is also included in determining the 12-month and lifetime PD.

Forward-looking economic information is also included in determining the 12-month and lifetime PD.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument.

The Company considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Company’s different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

For unbiased and probability weighted ECL calculation, the company uses probabilities of 60%, 20% and 20% for baseline, optimistic and pessimistic macro-economic scenario respectively based on expert judgement in order to represent majority weight to base and an even weight to the rest.

17. Risk management (continued)

***(a) Credit risk management* (continued)**

Maximum exposure to credit risk - Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets:

	2023				2022			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and cash equivalents								
Investment-grade	**314,187**	**-**		**314,187**	51,562	-	-	51,562
Loss allowance		**-**		**-**	-	-	-	
Carrying amount	**314,187**	**-**		**314,187**	51,562	-	-	51,562
Islamic financing products measured at amortised cost								
Grading 1	**-**	**-**	**-**	**-**	30	-	-	30
Grading 2	**721,925**	**67,799**	**-**	**789,724**	1,005,050	60,366	-	1,065,416
Grading 3	**-**	**-**	**-**	**-**	-	28,009	-	28,009
Grading 4	**-**	**-**	**-**	**-**	-	-	-	-
Grading 5	**-**	**-**	**32,214**	**32,214**	-	-	56,620	56,620
	721,925	**67,799**	**32,214**	**821,938**	1,005,080	88,375	56,620	1,150,075
Loss allowance	**(1,334)**	**(8,666)**	**(16,405)**	**(26,405)**	(3,134)	(11,566)	(25,856)	(40,556)
Carrying amount	**720,591**	**59,133**	**15,809**	**795,533**	1,001,945	76,810	30,764	1,109,519

17. Risk management (continued)

(a) Credit risk management (continued)

Risk management in the current economic scenario

The Company continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The Company is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information.

In addition, the Company continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk.

Collateral and other credit enhancements

Collateral against financial assets measured at amortised cost is generally held in the form of mortgage interest over vehicles and real estate properties. Estimates of fair value are based on the value of the collateral assessed at the time of financing.

The Company closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Company will take possession of the collateral to mitigate potential credit losses. The Company holds collateral against its Islamic financing products, the fair value of which as at 31 December 2023 is AED 809 million (2022: AED 1,120 million) of which AED 30 million are collateral held against islamic financing products that are specifically impaired (2022: AED 50 million).

17. Risk management (continued)

(a) Credit risk management (continued)

Gross carrying amount

The following table further explains the changes in the gross carrying amount from 1 January to 31 December 2023:

	2023				2022			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and cash equivalents								
Gross carrying amount as at 1 January	**51,562**	**-**	**-**	**51,562**	51,418	-	-	51,418
New financial assets originated	**262,625**	**-**	**-**	**262,625**	144	-	-	144
Gross carrying amount as at 31 December	**314,187**	**-**	**-**	**314,187**	51,562	-	-	51,562
Islamic financing products measured at amortised cost								
Gross carrying amount as at 1 January	**1,005,080**	**88,375**	**56,620**	**1,150,075**	973,738	156,296	83,430	1,213,464
Transfers								
Transfer from Stage 1 to Stage 2	**(25,787)**	**25,787**	**-**	-	(7,774)	7,774	-	-
Transfer from Stage 1 to Stage 3	**(2,800)**	**-**	**2,800**	-	(1,602)	-	1,602	-
Transfer from Stage 2 to Stage 1	**10,550**	**(10,550)**	**-**	-	65,888	(65,888)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(15,613)**	**15,613**	-	-	(5,010)	5,010	-
Transfer from Stage 3 to Stage 2	**-**	**2,499**	**(2,499)**	-	-	22,167	(22,167)	-
New financial assets originated	-	-	-	-	225,200	5,281	-	230,481
Repayments and other movements	**(265,118)**	**(22,699)**	**(40,320)**	**(328,137)**	(250,370)	(32,245)	(11,255)	(293,870)
Gross carrying amount as at 31 December	**721,925**	**67,799**	**32,214**	**821,938**	1,005,080	88,375	56,620	1,150,075

17. Risk management (continued)

***(a) Credit risk management* (continued)**

Loss allowance

The following table explain the changes in the loss allowance from 1 January 2023 to 31 December 2022:

	2023				2022			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing products measured at amortised cost								
Loss allowance as at 1 January	**3,134**	**11,566**	**25,856**	**40,556**	4,872	9,828	33,811	48,511
Transfers								
Transfer from Stage 1 to Stage 2	**(587)**	**587**	**-**	**-**	(761)	761	-	-
Transfer from Stage 1 to Stage 3	**(565)**	**-**	**565**	**-**	(341)	-	341	-
Transfer from Stage 2 to Stage 1	**43**	**(43)**	**-**	**-**	501	(501)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(3,300)**	**3,300**	**-**	-	(1,046)	1,046	-
Transfer from Stage 3 to Stage 2	**-**	**9**	**(9)**	**-**	-	3,388	(3,388)	-
New financial assets originated	**-**	**-**	**-**	**-**	318	246	-	564
Changes in PDs/LGDs/EADs	**(691)**	**(152)**	**(13,307)**	**(14,151)**	(1,455)	(1,110)	(5,954)	(8,519)
Loss allowance as at 31 December	**1,334**	**8,666**	**16,405**	**26,405**	3,134	11,566	25,856	40,556

17. Risk management (continued)

***(a) Credit risk management* (continued)**

Write-off policy

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The Company may write-off financial assets that are still subject to enforcement activity. The Company still seeks to recover amounts it is legally owned in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

However, as per Central Bank of the UAE guidelines, retail financing is written off at a maximum of 180 days past their due date, based on the characteristics of the underlying product. The write off amount includes the unpaid profit accrued to the facility till the date of write off and the principal outstanding. The only exception to this is high risk mortgage financing to individuals where the financing amount is written off at 180 days or is fully provided for net of collateral. For all other cases of mortgage defaults, the Company provides for the full amount of negative equity at 180 days.

(b) Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet a financial commitment to a customer, creditor, or investor when due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

While the Company is subject to a liquidity limit imposed by its local regulator, the Company is responsible for managing its overall liquidity within the regulatory limit in co-ordination with parent company's Central Treasury, who monitors compliance with local regulatory limits on a daily basis.

The following table summarizes the maturity profile of Company's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

17. Risk management (continued)

***(b) Liquidity risk management* (continued)**

The following table summarises the maturity profile of Company's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. Since the financial liabilities of the Company are due within one year from the financial position date, the impact of un-discounting is not expected to be material.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2023 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and cash equivalents	**314,187**	**-**	**-**	**-**	**-**	**314,187**
Islamic financing products measured at amortised cost	**26,696**	**10,936**	**22,563**	**179,492**	**555,846**	**795,533**
Other assets	**123**	**-**	**7**	**-**	**-**	**130**
Total assets	**341,006**	**10,936**	**22,570**	**179,492**	**555,846**	**1,109,850**
Liabilities and equity						
Due to Parent Company	**214,125**	**-**	**-**	**-**	**-**	**214,125**
Other liabilities	**3,635**	**-**	**-**	**-**	**-**	**3,635**
Equity	**-**	**-**	**-**	**-**	**892,090**	**892,090**
Total liabilities and equity	**217,760**	**-**	**-**	**-**	**892,090**	**1,109,850**

17 Risk management (continued)

(b) Liquidity risk management (continued)

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2022 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and cash equivalents	51,562	-	-	-	-	51,562
Islamic financing products measured at amortised cost	40,405	14,894	30,121	242,846	781,253	1,109,519
Other assets	115	-	11	-	58,025	58,151
Total assets	92,082	14,894	30,132	242,846	839,278	1,219,232
Liabilities and equity						
Due to Parent Company	374,045	-	-	-	-	374,045
Other liabilities	4,242	-	-	-	-	4,242
Equity	-	-	-	-	840,945	840,945
Total liabilities and equity	336,641	-	-	-	882,591	1,219,232

17. Risk management (continued)

(c) Market risk management

Market risk is the risk that the Company's position will be adversely affected by changes in the levels or volatilities of market factors such as profit rates, currency rates and equity prices. The Company is not exposed to significant market risk, as the Company does not undertake any major trading and non-trading activities.

Currency risk

The majority of the Company's assets and liabilities are denominated in Arab Emirates Dirhams (AED) and accordingly the Company's exposure to the currency risk is very limited. Some current accounts held at banks are denominated in U.S. Dollars to which AED is pegged and accordingly currency risk is limited on U.S. Dollar currency exposures.

Rate of return risk

Profit rate risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long- and short-term changes in fair value. Overall pricing or rate of return risk positions are managed by the Company's assets and liabilities committee.

The Company is not significantly exposed to risk in terms of the re-pricing of its assets and liabilities since majority are at fixed profit rates.

Fair value of financial instruments

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are , other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

During the year ended 31 December 2023 and 2022, the Company has no financial assets that are measured at fair value.

17. Risk management (continued)

(d) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.

Operational risk is inherent in the Company's business and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, employee misdeeds, or non-compliance to contract by vendors. These events could result in financial losses and other damage to the Company, including reputational harm. Operational risk inherent in the Company's business and support activities also include "Shari'ah Non-Compliance Risk", due to mishandling of an Islamic financing transaction/documentation leading to non-compliance with Shari'ah rules and principles. The Shari'ah non-compliance in a transaction may also lead to revenue loss, as the income earned on the effected transactions may need to be created to Charity.

To monitor and control operational risk, the Parent Company maintains a system of comprehensive policies, procedures and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in relation to the Company's financial strength, business characteristics, competitive environment and regulatory environment of the market in which the Company operates. Notwithstanding these control measures, the Company incurs operational losses.

The Parent Company has established an independent Operational Risk Function under the Risk Management Group; this Function has designed and implemented a detailed level Operational Risk Policy, which has since been approved by the Risk Management Committee.

The Parent Company's operational risk framework is supported by an operational risk software tool customised to meet the specific framework requirements of its entities. This helps integrate the individual components of the operational risk management framework into a unified, web-based tool and enhances the capture, reporting and analysis of operational risk data.

Operational risk monitoring

The Parent Company has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis is performed at business level and at each product and risk type level. The risk management framework of the parent entity also takes care of Shari'ah compliance through staff trainings, compliance reviews and Shari'ah audits in addition to periodic risk and compliance self-assessments.

18. Calculation of Zakat

As per the instructions of the Internal Shari'ah Supervision Committee, the Company calculates the Zakat and inform the shareholders of the Company, enabling them to pay Zakat on their respective shareholding in the Company. The ultimate responsibility to pay Zakat rests with the shareholders of the Company.

For the year ended 31 December 2023 , Zakat for the Company has been calculated at AED 0.59 (31 December 2022: Nil) for each share of the Company.

19. Classification of financial assets and liabilities

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2023:

	Amortised cost AED'000	**Carrying amount AED'000**
Financial assets		
Cash and cash equivalents	**314,187**	**314,187**
Islamic financing products measured at amortised cost	**795,533**	**795,533**
Other assets	**120**	**120**
	1,109,840	**1,109,840**
Financial liabilities		
Due to Parent Company	**214,125**	**214,125**
Other liabilities	**1,047**	**1,047**
	215,172	**215,172**

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2022:

	Amortised cost AED'000	Carrying amount AED'000
Financial assets		
Cash and cash equivalents	51,562	51,562
Islamic financing products measured at amortised cost	1,109,519	1,109,519
Other assets	113	113
	1,161,194	1,161,194
Financial liabilities		
Due to Parent Company	374,045	374,045
Other liabilities	1,273	1,273
	375,318	375,318

Management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the financial statements approximate their fair values.

20. Taxation

On 31 January 2022, the UAE Ministry of Finance ("MOF") announced the introduction of a corporate income tax (the "CIT")") on business profits, it is effected on 1 June 2023 and applied from such date. The CIT rate of 9% is applied on the adjusted accounting net profits of a business. The application is also dependent on the implementation of Base Erosion Profit Shifting (BEPS 2) – Pillar Two rules by the countries where the Company operates and the implementation of a top-up tax regime by UAE MOF. The Company has completed the assessment of the impact on its financial statements, both from current and deferred tax perspective in preparation for full compliance with the new Corporate tax law noting that the first tax period for the Company is starting on 1 January 2024. Based on this assessment performed, the Company has assessed the impact of on its deferred tax asset as immaterial.

21. Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the financial statements as at and for the year ended 31 December 2023.

22. Approval of financial statements

The financial statements for the year ended 31 December 2023 were approved by the Board of Directors and authorized for issue on 29 March 2024.