

# **BMW Albatha Finance PSC**

**Directors' report, independent  
auditor's report and financial  
statements**

For the year ended 31 December 2023

## **BMW Albatha Finance PSC**

### **Directors' report, independent auditor's report and financial statements For the year ended 31 December 2023**

	<b>Page</b>
Directors' report	1
Independent auditor's report	2 - 4
Statement of financial position	5
Statement of profit or loss and other comprehensive income	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9 - 38

## Directors' report

The Board of Directors have pleasure in presenting the audited financial statements of BMW Albatha Finance PSC ("the Company") for the year ended 31 December 2023.

### Principal activities and business review

The Company is licensed by the Central Bank of the UAE to engage in financing activities in accordance with the principles of Islamic Sharia'a and the applicable laws, rules and regulations in force including but not limited to:

- Providing financing designed to meet a variety of individual and consumer needs.
- Providing commercial financing to businesses, opening letters of credit, issuing guarantees and letters of guarantee and entering into foreign exchange contracts in favour of corporate entities.
- Subscribing to capital in undertakings that already exist or are under formation and/or subscribing for issues of shares, bonds and/or certificates of deposit up to maximum of 7% of its own capital in each instance.
- Providing deposit facilities and opening all types of accounts for corporate entities and issuing legal deeds and other instruments granting financing and certificates of deposit to corporate entities.
- Managing investment portfolios and other investment schemes as well as unit investment funds.
- Any other Sharia'a compliant Islamic automotive financial products or services that might be developed or introduced at any point in the future.

### Results for the year

The results of the Company for the year ended 31 December 2023 are set out on page 6 of the financial statements.

### Going concern basis

During the General Meeting held on 30 August 2023, the shareholders of the Company resolved to approve the Board of Directors' decision to cease writing new business and run down the Company's portfolio. As disclosed in note 2, the Board of Directors has reasonable expectation that the Company has adequate resources and support from its shareholders to continue its operational existence for the foreseeable future. For this reason, the Board of Directors continue to adopt the going concern basis in preparing the financial statements of the Company for the year ended 31 December 2023.

### Transactions with related parties

The financial statements disclose related party transactions and balances in note 13. All transactions are carried out as part of our normal course of business and in compliance with applicable laws and regulations.

  
Harald Schlegel  
Board member

  
Christof Stockhoff  
Board member





# Independent auditor's report to the shareholders of BMW Albatha Finance PSC

## Report on the audit of the financial statements

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### Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of BMW Albatha Finance PSC (the 'Company') as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

### What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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### Basis for opinion

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

### Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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### Emphasis of matter

We draw attention to note 2 to the financial statements which explains that on 30 August 2023, the shareholders of the Company resolved to cease writing new business and run down the Company's portfolio. However, the Company continues to exist to service agreements and other requirements of its existing client portfolio. Our opinion is not modified in respect of this matter.

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### Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report (but does not include the financial statements and our auditor's report thereon).

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



## Independent auditor's report to the shareholders of BMW Albatha Finance PSC (continued)

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### Other information (continued)

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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### 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 IFRS Accounting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. (32) of 2021, and Article (114) of the Decretal Federal Law No. (14) of 2018, as amended, 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.

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### 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 risks, 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.





## Independent auditor's report to the shareholders of BMW Albatha Finance PSC (continued)

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

- 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:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) 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;
- (iii) the Company has maintained proper books of account;
- (iv) the financial information included in the Directors' Report is consistent with the books of account of the Company;
- (v) as disclosed in note 19 to the financial statements, the Company has not purchased or invested in any shares during the financial year ended 31 December 2023;
- (vi) note 13 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and
- (vii) 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 year ended 31 December 2023 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.

Further, as required by the Article 114 of the Decretal Federal Law No. (14) of 2018, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of the audit.

PricewaterhouseCoopers Limited Partnership Dubai Branch  
27 March 2024

Stuart Alexander Scoular  
Registered Auditor Number 5563  
Place: Dubai, United Arab Emirates

## BMW Albatha Finance PSC

### Statement of financial position As at 31 December 2023

	Notes	As at 31 December 2023 AED	As at 31 December 2022 AED
<b>ASSETS</b>			
Cash and cash equivalents	8,1	21,968,775	20,227,224
Fixed deposits with a bank	8,2	3,000,000	3,009,404
Due from related parties	11, 13	187,774	-
Prepayments and other receivables	10	887,553	1,193,569
Islamic financing assets	9	292,939,466	320,584,891
<b>Total assets</b>		<b>318,983,568</b>	<b>345,015,088</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to related parties	11, 13	406,709	33,319,603
Borrowings	14	154,394,807	147,733,974
Deferred income	13	3,827,237	2,755,929
Other liabilities and accruals	12	2,591,698	2,456,139
<b>Total liabilities</b>		<b>161,220,451</b>	<b>186,265,645</b>
<b>Equity</b>			
Share capital	15	168,000,000	168,000,000
Accumulated losses		(12,914,254)	(11,838,746)
Statutory reserve		623,896	623,896
Credit risk reserve	5	2,053,475	1,964,293
<b>Total equity</b>		<b>157,763,117</b>	<b>158,749,443</b>
<b>Total liabilities and equity</b>		<b>318,983,568</b>	<b>345,015,088</b>

To the best of our knowledge, the financial statements present fairly, in all material respects, the financial position, results of operation and cash flows of the Company as of, and for, the year ended 31 December 2023.

These financial statements were approved and authorized for issue on 27 March 2024 by the Board of Directors and signed on their behalf by:

  
Harald Schlegel  
Board member

  
Christof Stockhoff  
Board member

The accompanying notes on pages 9 to 38 form an integral part of the financial statements.

The Independent auditor's report is set out on pages 2 to 4.



## BMW Albatha Finance PSC

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

	Notes	For the year ended 31 December 2023 AED	For the year ended 31 December 2022 AED
<b>Income</b>			
Income from Islamic financing assets		<b>14,756,314</b>	12,604,086
Subsidy realization income	13	<b>2,466,473</b>	861,674
Processing fees	16	<b>1,168,992</b>	1,606,273
Other income	17	<b>1,941,599</b>	903,989
<b>Total income</b>		<b>20,333,378</b>	15,976,022
<b>Expenses</b>			
Sales commission		<b>(585,756)</b>	(351,887)
General and administrative expenses	18	<b>(11,512,119)</b>	(10,571,773)
Reversal / (Charge) of allowance for impairment loss	9	<b>332,925</b>	(449,100)
Recoveries on Islamic financing assets previously written off		<b>35,641</b>	-
Borrowing costs	14	<b>(9,590,395)</b>	(3,415,611)
<b>Total expenses</b>		<b>(21,319,704)</b>	(14,788,371)
<b>(Loss) / Profit for the year</b>		<b>(986,326)</b>	1,187,651
Other comprehensive income		-	-
<b>Total comprehensive (loss) / income for the year</b>		<b>(986,326)</b>	1,187,651

The accompanying notes on pages 9 to 38 form an integral part of the financial statements.

The Independent auditor's report is set out on pages 2 to 4.



## BMW Albatha Finance PSC

### Statement of changes in equity For the year ended 31 December 2023

	Share capital AED	Accumulated losses AED	Statutory reserve AED	Credit risk reserve AED	Total AED
<b>As at 1 January 2022</b>	168,000,000	(12,593,654)	505,131	1,650,315	157,561,792
Total comprehensive income for the year	-	1,187,651	-	-	1,187,651
Transfer to statutory reserve (note 4)	-	(118,765)	118,765	-	-
Transfer to credit risk reserve (note 5)	-	(313,978)	-	313,978	-
<b>As at 31 December 2022</b>	168,000,000	(11,838,746)	623,896	1,964,293	158,749,443

	Share capital AED	Accumulated losses AED	Statutory reserve AED	Credit risk reserve AED	Total AED
<b>As at 1 January 2023</b>	168,000,000	(11,838,746)	623,896	1,964,293	158,749,443
Total comprehensive loss for the year	-	(986,326)	-	-	(986,326)
Transfer to credit risk reserve (note 5)	-	(89,182)	-	89,182	-
<b>As at 31 December 2023</b>	168,000,000	(12,914,254)	623,896	2,053,475	157,763,117

The accompanying notes on pages 9 to 38 form an integral part of the financial statements.

The Independent auditor's report is set out on pages 2 to 4.

## BMW Albatha Finance PSC

### Statement of cash flows For the year ended 31 December 2023

	Notes	For the year ended 31 December	
		2023 AED	2022 AED
<b>Cash flows from operating activities</b>			
(Loss) / Profit for the year		(986,326)	1,187,651
Adjustments for:			
Interest income on fixed deposits		(51,985)	(38,182)
Provision for employees' end of service benefits	12.1	296,437	203,647
Severance charge	12	125,108	-
Reversal / (Charge) of allowance for impairment loss	9	(332,925)	449,100
Borrowing costs	14	9,590,395	3,415,611
		<b>8,640,704</b>	<b>5,217,827</b>
Changes in operating assets and liabilities and end of service benefits			
Employees' end of service benefits paid	12.1	(31,621)	(95,202)
Change in Islamic financing assets	9	27,978,350	(46,701,647)
Change in prepayments and other receivables	10	306,016	(629,827)
Change in due from related parties	13	(187,774)	-
Change in due to related parties	13	(32,912,894)	21,724,835
Change in other liabilities and accruals	12	(254,365)	636,325
Change in subsidy income	13	1,071,308	1,746,324
Net cash generated from / (used in) operating activities		<b>4,609,724</b>	<b>(18,101,365)</b>
<b>Cash flows from investing activity</b>			
Interest income on fixed deposits		51,985	38,182
Placement of fixed deposits	8.2	(3,000,000)	(3,009,404)
Redemption of fixed deposits	8.2	3,009,404	-
Net cash generated from / (used in) investing activity		<b>61,389</b>	<b>(2,971,222)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	14	135,500,000	151,178,175
Borrowings repaid	14	(134,155,898)	(122,499,731)
Borrowing costs paid		(4,273,664)	(2,028,432)
Net cash (used in) / generated from financing activities		<b>(2,929,562)</b>	<b>26,650,012</b>
Net change in cash and cash equivalents		<b>1,741,551</b>	<b>5,577,425</b>
Cash and cash equivalents at the beginning of the year		<b>20,227,224</b>	<b>14,649,799</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>21,968,775</b>	<b>20,227,224</b>
Cash and cash equivalents comprise of:	8		
Current account with banks		<b>21,968,775</b>	<b>20,227,224</b>
<b>Total cash and cash equivalents</b>		<b>21,968,775</b>	<b>20,227,224</b>

#### Non-cash transaction:

During the year ended 31 December 2023, there has been a transfer of one employee from another group entity which has resulted in the transfer of their related end of service benefits amounting to AED 52,334 (Note 12.1).

The accompanying notes on pages 9 to 38 form an integral part of the financial statements.

The Independent auditor's report is set out on pages 2 to 4.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023

### 1 Establishment and operations

BMW Albatha Finance PSC (the "Company") was registered on 17 June 2014 as a Private Joint Stock Company. The Company's registered office is Unit No. 3, Ground Floor, Albatha Real Estate Co. Building, Sheikh Zayed Road, Al Quoz 1st Area Dubai. The place of operation is AGMC Showroom, Sheikh Zayed Road, P.O. Box 482090, Dubai, United Arab Emirates ("UAE").

The Company is licensed by the Central Bank of the UAE ("CB UAE") to engage in financing activities in accordance with the principles of Islamic Sharia'a and the applicable laws, rules and regulations in force including but not limited to:

- Providing financing designed to meet a variety of individual and consumer needs.
- Providing commercial financing to businesses, opening letters of credit, issuing guarantees and letters of guarantee and entering into foreign exchange contracts in favor of corporate entities.
- Subscribing to capital in undertakings that already exist or are under formation and/or subscribing for issues of shares, bonds and/or certificates of deposit up to maximum of 7% of its own capital in each instance.
- Providing deposit facilities and opening all types of accounts for corporate entities and issuing legal deeds and other instruments granting financing and certificates of deposit to corporate entities.
- Managing investment portfolios and other investment schemes as well as unit investment funds.
- Any other Sharia'a compliant Islamic automotive financial products or services that might be developed or introduced at any point in the future.

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

The shareholders of the Company are BMW Malta Ltd. with 40% holding, Albatha Holding LLC with 30% holding and Arabian Gulf Mechanical Centre (AGMC) Ltd. with 30% holding. The ultimate parent of the Company is Bayerische Motoren Werke AG which is incorporated in Munich, Germany.

### 2 Basis of preparation

#### (a) Statement of compliance

The financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB"), interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and applicable requirements of the UAE Federal Decree Law No. (32) of 2021 and Article (114) of the Decretal Federal Law No. (14) of 2018, as amended.

#### (b) Basis of measurement

During the General Meeting held on 30 August 2023, the shareholders of the Company resolved to approve the Board of Directors' decision to cease writing new business and run down the Company's portfolio. This strategic decision was taken by the Board of Directors based on the current market conditions and a review of the Company's business model. The Company notified CB UAE of this decision on 15 September 2023 and the same was acknowledged by the regulator on 27 October 2023. The Company will continue to meet and service its financial obligations towards its lenders in line with its contractual commitments and comply with all CB UAE regulations and reporting requirements. The Board of Directors has full confidence that the Company continues to have adequate resources and support from its shareholders. The Company has sufficient borrowing limits to manage its cashflows and expects to settle its borrowings as and when they mature through inflows from Islamic financing assets. For this reason, the Board of Directors' continue to adopt the going concern basis in preparing the financial statements of the Company for the year ended 31 December 2023.

#### (c) Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham (AED), which is also the functional currency of the Company.



# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 2 Basis of preparation (continued)

#### (d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis and are based on historical experience and other factors that are considered to be relevant and reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Revisions to accounting estimates are recognized 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. For the year ended 31 December 2023 and 31 December 2022, the significant accounting estimate made by management relates to the ECL provision on Islamic Financing Assets. Information about this estimate is provided in the respective accounting policy note 2 (d).

#### (e) Changes in accounting policies

The accounting policies set out below have been applied consistently to all the years presented in these financial statements, unless otherwise stated.

### 3 Islamic Sharia'a definitions

The following terms are used in the financial statements with the meaning specified:

#### Sharia'a

Sharia'a is the Islamic law which is essentially derived from the Quran and Sunnah that governs beliefs and conducts of human beings. The Company incorporates the Sharia'a rules and principles in its activities.

#### Murabaha

An agreement whereby the Company sells to a customer a commodity which the Company has purchased based on a promise received from the customer to buy the item purchased according to specific terms and conditions.

### 4 Material accounting policies

#### (a) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currency of the Company at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective profit and payments during the period, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognized in the statement of profit or loss and other comprehensive income.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (b) Revenue recognition

Income from Islamic financing assets are recognized 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 received and discounts that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset.

#### Murabaha income

Murabaha income is recognized on a time-proportion basis over the period of the contract based on the principal amounts outstanding using the effective profit rate method.

#### Subsidy realization income

The Company enters agreements with a related party to offer subsidized profit rates during certain promotional periods. Under the agreements, the Company receives an upfront amount which represents the profit that would be receivable on a similar contract disbursed on commercial terms. This subsidy is initially recorded as unearned income. Subsequently, the subsidy is recognized in the statement of profit or loss and other comprehensive income over the tenure of the financing asset using the effective profit rate.

#### Processing fees and other income

Processing fees which form an integral part of products offered are recognized upfront on the processing of an Islamic financing asset which is recorded in the books.

Other income consists of late payment fees and profit earned on short term Murabaha deposits. Late payment fees are recognized once customers default on their installments. Profit income on short term Murabaha deposits is recorded using the effective profit rate.

#### (c) Property and equipment

##### Recognition and measurement

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Company, and its cost can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

##### Depreciation

Depreciation is calculated on a straight line basis to reduce the cost of items of property and equipment to their estimated residual values over their useful lives, and is generally recognized in the statement of profit or loss and other comprehensive income. Property and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable. Depreciation method and useful lives are reassessed at each reporting date and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of profit or loss and other comprehensive income. The estimated useful lives of significant items of property and equipment are as follows:

	Years
Furniture and fixtures	5
IT equipment	3

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (c) Property and equipment (continued)

##### Depreciation (continued)

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income.

##### Impairment of non-financial assets

At each reporting date, 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). Where 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.

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. 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 recognized immediately in the statement of profit or loss and other comprehensive income.

Where 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, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of profit or loss and other comprehensive income.

#### (d) Financial instruments

##### Recognition and initial measurement

Islamic financing assets are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is an accounts receivable without a significant financing component) or a financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

##### Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortized cost, Fair Value through Other Comprehensive Income ("FVOCI") – debt investment, FVOCI – equity investment or Fair Value through Profit or Loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.



# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (d) Financial instruments (continued)

##### Classification and subsequent measurement (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold the assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Business model assessment: The Company assesses the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Business model assessment involves determining how financial assets are managed in order to generate cash flows. For the assessment of a business model, the Company takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to Company heads and other key decision makers within the Company's business lines; and
- The risks that affect the performance of assets held within a business model and how those risks are managed.

##### **Assessment of whether contractual cash flows are solely payments of principal and profit:**

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and profit ("SPPP") on the principal amount outstanding. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. If the Company identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

##### **Subsequent measurement and gains and losses**

A financial instrument is any contract that gives rise to both a financial asset of the Company and a financial liability or equity instrument for another party. The Company principally classifies its financial assets at initial recognition in the following categories:

Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective profit method. The amortized cost is reduced for impairment losses. Profit income, foreign exchange gains and losses and impairment are recognized in the statement of profit or loss and other comprehensive income. Any gain or loss on de-recognition is recognized in the statement of profit or loss and other comprehensive income.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (d) Financial instruments (continued)

##### Derivative financial instruments

The Company enters into derivatives such as cross currency swaps. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in the statement of profit or loss and comprehensive income. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. As at 31 December 2023 there are no derivative instruments.

##### De-recognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the statement of profit or loss and other comprehensive income.

##### Financial liabilities – Classification, subsequent measurement and gains and losses

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective profit method.

Other financial liabilities comprise due to related parties, other liabilities and borrowings.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

##### Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

##### Impairment

The Company assesses on a forward-looking basis the Expected Credit Loss ("ECL") associated with its financial assets carried at amortized cost. 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.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (d) Financial instruments (continued)

##### Impairment (continued)

The Company applies the three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9. These financial assets migrate through three stages based on the change in credit risk since initial recognition. ECLs reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

##### Measurement of ECL

IFRS 9 considers the calculation of ECL by multiplying the Probability of default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"). Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and accrued profit from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the EAD.

The Company has developed methodologies and models taking into account a number of factors linked to the quality of the portfolio. These parameters are generally derived from internally developed statistical models and other historical data and are adjusted to reflect forward-looking information.

##### Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporate forecasts of future economic conditions.

When estimating the ECL, the Company considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted financing is expected to be recovered, including the probability that the financing will cure and the value of collateral or the amount that might be received for selling the asset.



# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (d) Financial instruments (continued)

##### Impairment (continued)

##### Macroeconomic factors, forward looking information and multiple scenarios (continued)

Macroeconomic factors and forward-looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECL at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

##### Assessment of Significant Increase in Credit Risk ("SICR")

When determining whether the credit risk on financial assets has increased significantly since the initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information. This primarily identifies whether a significant increase in credit risk has occurred by comparing (i) the remaining lifetime PD as at the reporting date; with (ii) the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days overdue.

At each reporting date, the assessment of a change in credit risk is individually assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

##### Expected life

When measuring ECL, the Company considers the maximum contractual period over which the Company is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options and extensions.

##### Modified financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be de-recognized. Where a modification does not result in de-recognition, the date of origination continues to be used to determine SICR.

Where a modification results in de-recognition, the new financial asset is recognized at its fair value on the modification date. The modification date is also the date of origination for this new asset.

The Company may modify the contractual terms of facilities for credit reasons by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower 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 product.
- Significant extension of the term when the borrower is not in financial difficulty.
- Significant change in the profit rate.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the product.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (d) Financial instruments (continued)

##### Impairment (continued)

##### Modified financial assets (continued)

Facilities may also be modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty. For all financial assets, modifications of the contractual terms may result in derecognition of the original asset when the changes to the terms are considered substantial.

These terms include profit rate, authorized amount or term. The original facility is derecognized and the new facility is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized in the statement of profit or loss and other comprehensive income.

For all facilities, performing and credit-impaired, where the modification of terms did not result in the derecognition of the financial assets, the carrying amount of the modified facility is recalculated based on the restructuring terms agreed, less any provision required as calculated by the IFRS 9 model.

##### Definition of default

The Company considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated.

##### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (d) Financial instruments (continued)

##### Impairment (continued)

##### Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer; and
- a breach of contract such as a default or past due event.

A facility is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

##### Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. The Company has defined the below criteria in accordance with regulatory guidelines and IFRS 9 to assess any improvement in the credit risk profile which will result in the upgrading of customers from Stage 3 to Stage 2 and from Stage 2 to Stage 1:

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 instalments (for quarterly instalments) have been made or 12 months (for instalments longer than quarterly) curing period is met.

##### Write-offs

The Company writes-off financing assets balances when there is no reasonable expectation of recovery. The determination is reached after considering factors such as significant deterioration in the customer's financial position such that the customer can no longer pay the obligation, or all possible efforts of collecting the amounts have been exhausted. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the statement of profit or loss and other comprehensive income.

#### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and non-restricted current accounts with banks.

#### (f) Islamic financing assets

Islamic financing assets consist of Murabaha receivables and they are measured at amortized cost less any net change in allowance for impairment loss.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (g) Fees and commission expense

Fees and commission expense relates mainly to commission to dealers and external sales representatives and are amortized over the life of the Islamic financing asset.

#### (h) Provisions

Provisions are recognized 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 recognized 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### (i) Staff terminal benefits

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labor law, calculated on the basis of the individual's period of service at the reporting date and included under other liabilities. The present value of the end of service benefit obligation is also assessed using the projected unit credit method at the balance sheet date in accordance with the provisions of IAS 19. This method involves the use of estimates and assumptions including expected service life, expected increments and discount rate. The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the financial statements.

#### (j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

#### (k) Statutory reserve

In accordance with Article 241 of the UAE Federal Law No. (32) of 2021, companies need to allocate a minimum of 10% of their annual net profits for the establishment of a statutory reserve until such reserve equals 50% of the paid-up share capital of the Company.

#### (l) Borrowing costs

All borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred. Accrued borrowing costs are classified under borrowings.

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 4 Material accounting policies (continued)

##### (m.1) New and revised IFRS Accounting Standards adopted in the financial statements

The following new and revised IFRS Accounting Standards, 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 IFRS Accounting Standards, except where stated, have not had any material impact on the amounts reported for the current and prior year.

Title	Key requirements	Effective for annual periods beginning on or after
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	1 January 2023
Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023
Amendment to IAS 12 - International tax reform	These amendments give companies temporary relief from accounting for deferred taxes arising from the Minimum Tax Implementation Handbook international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.	1 January 2023

##### (m.2) New and revised IFRS Accounting Standards not yet adopted in the financial statements

The Company has not yet applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective:

Title	Key requirements	Effective for annual periods beginning on or after
Amendments to IAS 1	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	1 January 2024
Amendments to IAS 21 - Lack of Exchangeability	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.	1 January 2024

Management anticipates that these new standards, interpretations and amendments will be adopted in the financial statements as and when they are applicable. The Company is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective. The expected impact is not material.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 4 Material accounting policies (continued)

#### (n) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price; i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the statement of profit or loss and other comprehensive income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

### 5 Financial risk management

All the Company's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Company's significant exposure can be broadly categorized into the following risks:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

This note represents broad information about the Company's objectives, policies and processes for identifying, measuring, reporting and mitigating the above-mentioned risks.



# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 5 Financial risk management (continued)

#### Risk Management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's financing assets to customers, cash and cash equivalents and fixed deposits with a bank. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

#### Management of credit risk

The Company formulates credit policies, independently reviews large credit exposures and performs portfolio management of risk concentrations. It also reviews the efficiency of the credit approval process, a key element of which is the Company's rating and grading system.

The Company's local management is responsible for:

- implementing credit policies, procedures and lending guidelines that conform to Company standards;
- monitoring credit process which includes delegated approval authorities and credit procedures;
- monitoring quality and performance of credit portfolio;
- monitoring and controlling all credit risks; and
- frequent and intensive review and reporting of problem exposures in order to accelerate remedial action.

#### Exposure to credit risk

The Company measures its exposure to credit risk by reference to the gross carrying amount of financial assets less impairment losses.

#### Impaired financing assets

Impaired financing assets are financial assets for which 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.

These financing assets are classified as substandard, doubtful, legal and loss, as appropriate, which is in accordance with the guidelines issued by the CB UAE.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 5 Financial risk management (continued)

#### Credit risk (continued)

Past due but not impaired financing assets

These are financing assets where contractual profit or principal payments are past due but the Company believes that impairment is inappropriate on the basis of a genuine repayment source, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Company.

The number of days past due is non-cumulative, where the most recent payment cures the earliest contractual breach. Management also monitors closely the credit risk on customers which have been delinquent in the past but not delinquent currently and classifies them in a separate class named "Former delays (1 - 3 days)". While these exposures are not included in the Past due but not impaired, separate probability of defaults are calculated for this class.

Financing assets with renegotiated terms

Financing assets with renegotiated terms are financing assets that have been restructured due to deterioration in the customer's financial position and where the Company has made some concessions such as extension of initial maturity but there is no loss in terms of profit or principal. Once the financing asset is restructured it remains in this category for a minimum period of one year during which time repayment should be regular in order to transfer it to standard portfolio. As at 31 December 2023 and 2022, the Company had no financial assets with renegotiated terms.

#### Write-off policy

The Company writes off financing assets (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the financing assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer's financial position such that the customer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues.

The following table provides a detailed analysis of Islamic financing assets outstanding at the reporting date:

	As at 31 December 2023		As at 31 December 2022	
	Gross amount AED	ECL AED	Gross amount AED	ECL AED
Gross Islamic financing assets:				
Neither past due nor impaired	291,841,201	907,050	319,705,877	1,378,231
Past due but not impaired	2,213,647	347,936	2,227,744	279,577
Individually impaired	360,141	220,537	812,653	503,575
	<b>294,414,989</b>	<b>1,475,523</b>	<b>322,746,274</b>	<b>2,161,383</b>

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 5 Financial risk management (continued)

##### Credit risk (continued)

##### Islamic financing assets which were past due but not impaired

Islamic financing assets which were past due at reporting date but not impaired were as follows:

	As at 31 December 2023		As at 31 December 2022	
	Gross amount AED	ECL AED	Gross amount AED	ECL AED
Past due up to 29 days	1,879,299	267,696	1,680,215	116,634
Past due 30-59 days	334,348	80,240	341,866	81,981
Past due 60-89 days	-	-	205,663	80,962
	<b>2,213,647</b>	<b>347,936</b>	2,227,744	279,577

The table below classifies the gross balances and ECL of financing assets as at 31 December 2023 and 31 December 2022 by IFRS 9 stages:

	Stage 1 AED	Stage 2 AED	Stage 3 AED	Total AED
<b>Gross balance at 31 Dec 2023</b>	<b>293,720,500</b>	<b>334,348</b>	<b>360,141</b>	<b>294,414,989</b>
Gross balance at 31 Dec 2022	321,386,092	547,529	812,653	322,746,274
	Stage 1 AED	Stage 2 AED	Stage 3 AED	Total AED
<b>ECL allowance at 31 Dec 2023</b>	<b>1,174,746</b>	<b>80,240</b>	<b>220,537</b>	<b>1,475,523</b>
ECL allowance at 31 Dec 2022	1,494,865	162,943	503,575	2,161,383

The CB UAE issued its IFRS 9 guidance on 30 April 2018 via notice No.: CBUAE/BS/2018/458 addressing various implementation challenges and practical implications for financial institutions adopting IFRS 9 in the UAE ("the Guidance"). Pursuant to clause 6.4 of the Guidance, the reconciliation between collective and specific provision under Circular 28/2010 of CB UAE and IFRS 9 is as follows:

	CB UAE Guidelines AED	IFRS 9 ECL AED	Credit risk reserve AED
Specific provisions (Stage 3 under IFRS 9)	220,537	220,537	-
Collective provisions (Stage 1 and 2 under IFRS 9)	3,308,461	1,254,986	2,053,475
As at 31 December 2023	<b>3,528,998</b>	<b>1,475,523</b>	<b>2,053,475</b>
	CB UAE Guidelines AED	IFRS 9 ECL AED	Credit risk reserve AED
Specific provisions (Stage 3 under IFRS 9)	503,575	503,575	-
Collective provisions (Stage 1 and 2 under IFRS 9)	3,622,101	1,657,808	1,964,293
As at 31 December 2022	4,125,676	2,161,383	1,964,293

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 5 Financial risk management (continued)

#### Credit risk (continued)

The Company's maximum credit risk exposure at the statement of financial position date is represented by the respective carrying amounts of the financial assets in the statement of financial position as follows:

	As at 31 December 2023 AED	As at 31 December 2022 AED
Cash and cash equivalents (excluding cash in hand) (refer note 8.1)	21,968,775	20,227,224
Fixed deposits with a bank (refer note 8.2)	3,000,000	3,009,404
Islamic financing assets (net) (refer. note 9)	292,939,466	320,584,891
	<u>317,908,241</u>	<u>343,821,519</u>

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2023 and 2022. The exposures to all counterparties are monitored on a regular basis. At 31 December 2023 and 2022, the Company has assessed the recoverability of its financial assets and considered provision for expected credit loss to be immaterial for cash and fixed deposits with a bank. Islamic financing assets are with retail individual customers which are unrated but as per the BMW credit policy the Company can only lend to those customers which are having good credit standing.

The table below presents an analysis of cash at bank by rating agency designation at 31 December 2023 and 2022, based on external ratings or their equivalent:

Rating	As at 31 December 2023 AED	As at 31 December 2022 AED
P-1	15,764,765	15,170,572
P-2	9,204,010	8,066,056
	<u>24,968,775</u>	<u>23,236,628</u>

#### Concentration risk

Concentration of credit risk exists when a number of counterparties are engaged in similar activities or operate in the same geographical area or industry sector and have comparable economic characteristics, so that the ability to meet contractual obligation is uniformly affected by changes in economic, political or other conditions. The Company has all its Islamic financing asset exposures within the United Arab Emirates.

	As at 31 December 2023 AED	As at 31 December 2022 AED
<b>Gross balance:</b>		
Corporate	27,552,869	20,854,416
Individuals	266,862,120	301,891,858
	<u>294,414,989</u>	<u>322,746,274</u>

#### Mortgage

The Company holds first degree of mortgage over the financed assets. It is the Company's policy to ensure that financing is extended to customers within their capability to service profit and repay principal instead of relying on the first degree of mortgage. Nevertheless, the first degree of mortgage can be an important credit risk mitigant. The estimated fair value of collateral that the Company holds relating to loans individually determined to be impaired at 31 December 2023 amounted to AED 290,649 (31 December 2022: AED 675,410).

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 5 Financial risk management (continued)

##### Credit risk (continued)

The following table explains the changes in the gross carrying amount of Islamic financing assets between the beginning and the end of the annual period:

	Stage 1 12-month AED	Stage 2 Lifetime AED	Stage 3 Lifetime AED	Total AED
<b>As at 1 January 2023</b>	<b>321,386,092</b>	<b>547,529</b>	<b>812,653</b>	<b>322,746,274</b>
Transfers:				
Transfer from Stage 1	(521,403)	444,526	76,877	-
Transfer from Stage 2	193,809	(269,055)	75,246	-
New assets originated	131,408,453	-	-	131,408,453
Repayments during the year	(158,746,451)	(388,652)	(251,700)	(159,386,803)
Write-offs during the year			(352,935)	(352,935)
<b>As at 31 December 2023</b>	<b>293,720,500</b>	<b>334,348</b>	<b>360,141</b>	<b>294,414,989</b>
As at 1 January 2022	274,749,386	776,376	574,294	276,100,056
Transfers:				
Transfer from Stage 1	(649,751)	305,307	344,444	-
Transfer from Stage 2	44,635	(107,585)	62,950	-
New assets originated	183,601,141	-	-	183,601,141
Repayments during the year	(136,359,319)	(426,569)	(34,741)	(136,820,629)
Write-offs during the year	-	-	(134,294)	(134,294)
As at 31 December 2022	321,386,092	547,529	812,653	322,746,274

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 5 Financial risk management (continued)

##### Credit risk (continued)

The following table explains the changes in the loss allowance amount between the beginning and the end of the annual period:

	Stage 1 12-month ECL AED	Stage 2 Lifetime ECL AED	Stage 3 Lifetime ECL AED	Total  AED
<b>As at 1 January 2023</b>	<b>1,494,865</b>	<b>162,943</b>	<b>503,575</b>	<b>2,161,383</b>
Transfers:				
Transfer from Stage 1	(2,426)	2,068	358	-
Transfer from Stage 2	57,677	(80,070)	22,393	-
New assets originated	611,221	-	-	611,221
Repayments during the year	(738,378)	(115,662)	(21,738)	(875,778)
Write-offs during the year	-	-	(352,935)	(352,935)
Changes in PDs/LGDs/EADs	(248,213)	110,961	68,884	(68,368)
<b>As at 31 December 2023</b>	<b>1,174,746</b>	<b>80,240</b>	<b>220,537</b>	<b>1,475,523</b>
As at 1 January 2022	1,245,323	201,555	320,834	1,767,712
Transfers:				
Transfer from Stage 1	(2,305)	1,083	1,222	-
Transfer from Stage 2	12,336	(29,733)	17,397	-
New assets originated	651,464	-	-	651,464
Repayments during the year	(483,838)	(111,937)	(99,684)	(695,459)
Write-offs during the year	-	-	(55,429)	(55,429)
Changes in PDs/LGDs/EADs	71,885	101,975	319,235	493,095
As at 31 December 2022	1,494,865	162,943	503,575	2,161,383



# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 5 Financial risk management (continued)

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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 they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The details of the Company's net liquid assets are summarized below by the maturity profile of the Company's assets and liabilities:

	Up to 3 months AED	3 to 12 months AED	1-5 years AED	Total AED
<b>Financial assets as at 31 December 2023</b>				
Cash and cash equivalents	21,968,775	-	-	21,968,775
Fixed deposits with a bank	-	3,000,000	-	3,000,000
Due from related parties	187,774	-	-	187,774
Islamic financing assets	27,301,775	83,925,780	181,711,911	292,939,466
<b>Total</b>	<b>49,458,324</b>	<b>86,925,780</b>	<b>181,711,911</b>	<b>318,096,015</b>
<b>Financial liabilities as at 31 December 2023</b>				
Due to related parties	406,709	-	-	406,709
Borrowings	50,858,607	92,945,355	10,590,845	154,394,807
Other liabilities	17,317	853,360	1,554,829	2,425,506
<b>Total</b>	<b>51,282,633</b>	<b>93,798,715</b>	<b>12,145,674</b>	<b>157,227,022</b>
<b>Liquidity gap</b>	<b>(1,824,309)</b>	<b>(6,872,935)</b>	<b>169,566,237</b>	<b>160,868,993</b>
<b>Financial assets as at 31 December 2022</b>				
Cash and cash equivalents	20,227,224	-	-	20,227,224
Fixed deposits with a bank	-	3,009,404	-	3,009,404
Islamic financing assets	28,632,315	82,979,895	208,972,681	320,584,891
<b>Total</b>	<b>48,859,539</b>	<b>85,989,299</b>	<b>208,972,681</b>	<b>343,821,519</b>
<b>Financial liabilities as at 31 December 2022</b>				
Due to related parties	33,319,603	-	-	33,319,603
Borrowings	20,105,732	81,148,010	46,480,232	147,733,974
Other liabilities	13,096	1,162,243	1,112,570	2,287,909
<b>Total</b>	<b>53,438,431</b>	<b>82,310,253</b>	<b>47,592,802</b>	<b>183,341,486</b>
<b>Liquidity gap</b>	<b>(4,578,892)</b>	<b>3,679,046</b>	<b>161,379,879</b>	<b>160,480,033</b>

The Company has unused borrowing limits to raise sufficient funding to manage unexpected outflows. The Company continues to monitor its liquidity positions to ensure it has sufficient liquidity.

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 5 Financial risk management (continued)

##### Liquidity risk (continued)

The following table summarizes the maturity profile of Company's liabilities based on the contractual undiscounted repayment obligations as at 31 December 2023 and 2022.

	Up to 3 months AED	3 to 12 months AED	1-5 years AED	Total AED
<b>Financial liabilities as at 31 December 2023</b>				
Due to related parties	406,709	-	-	406,709
Borrowings	51,233,901	97,329,847	11,384,000	159,947,748
Other liabilities and accruals	183,509	853,360	1,554,829	2,591,698
<b>Total</b>	<b>51,824,119</b>	<b>98,183,207</b>	<b>12,938,829</b>	<b>162,946,155</b>
<b>Financial liabilities as at 31 December 2022</b>				
Due to related parties	33,319,603	-	-	33,319,603
Borrowings	20,888,868	82,414,267	51,936,000	155,239,135
Other liabilities and accruals	181,326	1,162,243	1,112,570	2,456,139
<b>Total</b>	<b>54,389,797</b>	<b>83,576,510</b>	<b>53,048,570</b>	<b>191,014,877</b>

##### Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, profit rates and equity prices will affect the Company's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Company's solvency while optimizing the return on risk.

##### Foreign exchange risk

The Company's Islamic financing assets, cash and cash equivalents, fixed deposits with a bank, due to related parties and other liabilities and accruals are denominated in AED and do not carry any currency risk. The Company's bank borrowings are denominated in AED and United States Dollar ("USD") and do not carry significant currency risk as the AED is pegged to the USD.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 5 Financial risk management (continued)

#### Market risk (continued)

##### Profit rate risk

At the reporting date, the profit profile of the Company's profit bearing financial instruments was as follows:

	<b>As at 31 December 2023 AED</b>	<b>As at 31 December 2022 AED</b>
<b>Fixed rate instruments</b>		
Islamic financing assets	<b>292,939,466</b>	320,584,891
Bank borrowings	<b>154,394,807</b>	147,733,974

The bank borrowings are at fixed rate, there is no profit rate risk the Company is exposed to thereon. Similarly, Islamic financing assets are also offered at a fixed rate, hence there is no profit rate risk the Company is exposed to.

##### Price risk

The Company is not exposed to price risk as at 31 December 2023 and 2022. The Company does not hold any investments measured at fair value.

#### Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, the Company's policy requires compliance with all applicable legal and regulatory requirements.

The Company has taken measures to put in place tools, firstly to identify all such operational risks. The Company has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimize financial losses and damage to the Company's reputation.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 5 Financial risk management (continued)

#### Capital management

The Company's objectives when managing capital are as follows:

- Safeguard the Company's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CB UAE.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company has complied with all regulatory requirements issued by the CB UAE during the year.

### 6 Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, the fair value is more subjective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models and comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 6 Fair value of financial instruments (continued)

##### Fair value of financial instruments not carried at fair value

The financial instruments not measured at fair value are short-term financial assets and financial liabilities whose carrying amounts approximate fair value. In respect of Islamic financing assets and borrowings measured at amortized cost, management estimates that carrying values are a reasonable representation of fair values.

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<b>Financial assets as at</b>				
<b>31 December 2023</b>				
Cash and cash equivalents	21,968,775	-	-	21,968,775
Fixed deposits with a bank	3,000,000	-	-	3,000,000
Due from related parties	-	-	187,774	187,774
Islamic financing assets	-	-	294,414,989	294,414,989
<b>Total</b>	<b>24,968,775</b>	<b>-</b>	<b>294,602,763</b>	<b>319,571,538</b>
<b>Financial liabilities as at</b>				
<b>31 December 2023</b>				
Due to related parties	-	-	406,709	406,709
Borrowings	-	-	154,394,807	154,394,807
Other liabilities	-	-	2,425,506	2,425,506
<b>Total</b>	<b>-</b>	<b>-</b>	<b>157,227,022</b>	<b>157,227,022</b>
<b>Financial assets as at</b>				
<b>31 December 2022</b>				
Cash and cash equivalents	20,227,224	-	-	20,227,224
Fixed deposits with a bank	3,009,404	-	-	3,009,404
Islamic financing assets	-	-	322,746,274	322,746,274
<b>Total</b>	<b>23,236,628</b>	<b>-</b>	<b>322,746,274</b>	<b>345,982,902</b>
<b>Financial liabilities as at</b>				
<b>31 December 2022</b>				
Due to related parties	-	-	33,319,603	33,319,603
Borrowings	-	-	147,733,974	147,733,974
Other liabilities	-	-	2,287,909	2,287,909
<b>Total</b>	<b>-</b>	<b>-</b>	<b>183,341,486</b>	<b>183,341,486</b>

#### 7 Contingent liabilities and commitments

There were no known legal proceedings, other contingent liabilities or undrawn commitments against the Company as at 31 December 2023 and 2022.

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 8 Cash and bank balances

##### 8.1 Cash and cash equivalents

	As at 31 December 2023 AED	As at 31 December 2022 AED
Cash at bank – current accounts	21,968,775	20,227,224
	<u>21,968,775</u>	<u>20,227,224</u>

Bank balances in current accounts are held with reputable and good rated local banks. At 31 December 2023 and 2022, the balances with bank in current accounts were profit free and repayable on demand. At 31 December 2023 and 2022, the Company has assessed the recoverability of its cash balance and considered provision for expected credit loss to be immaterial.

##### 8.2 Fixed deposits with a bank

	As at 31 December 2023 AED	As at 31 December 2022 AED
Fixed deposits	3,000,000	3,009,404
	<u>3,000,000</u>	<u>3,009,404</u>

The fixed deposits are held with a reputable and good rated local bank which is maturing on 9 September 2024. It is a profit bearing deposit with profit rate at 5.40% p.a. (2022: 1.5%-1.8% p.a.). The Company has assessed the recoverability of its cash balance and considered provision for expected credit loss to be immaterial.

#### 9 Islamic financing assets

	As at 31 December 2023 AED	As at 31 December 2022 AED
Vehicle Murabaha	294,414,989	322,746,274
Less: stage 3 provision for ECL	(220,537)	(503,575)
Less: stage 1 and 2 provision for ECL	(1,254,986)	(1,657,808)
	<u>292,939,466</u>	<u>320,584,891</u>

The movement in the provision for ECL is as follows:

	As at 31 December 2023 AED	As at 31 December 2022 AED
Opening balance	2,161,383	1,767,712
Add: (Reversal) / Charge in allowance for impairment loss	(332,925)	449,100
Less: Write-offs	(352,935)	(55,429)
	<u>1,475,523</u>	<u>2,161,383</u>



## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 9 Islamic financing assets (continued)

The movement in the provision for ECL is primarily driven by:

- A decrease of AED 875,778 (2022: AED 695,459) of Islamic financing assets derecognized; and
- A decrease of AED 68,368 (2022: increase of AED 493,095) relating to changes in risk parameters.

These were partly offset by:

- AED 611,221 (2022: AED 651,464) relating to new financial assets originated.

#### 10 Prepayments and other receivables

	<b>As at 31 December 2023 AED</b>	<b>As at 31 December 2022 AED</b>
Dealer commission	789,179	770,421
Insurance	2,996	306,971
Prepaid car registration	34,300	16,400
Other prepayments	43,500	99,777
Net VAT receivable	17,578	-
	<b>887,553</b>	<b>1,193,569</b>

#### 11 Due to related parties

	<b>As at 31 December 2023 AED</b>	<b>As at 31 December 2022 AED</b>
BMW Finance (UAE) Limited (refer note 13)	406,709	2,792,124
Arabian Gulf Mechanical Centre ("AGMC") (refer note 13)	-	24,857,155
BMW Albatha Leasing LLC (refer note 13)	-	5,670,324
	<b>406,709</b>	<b>33,319,603</b>

#### Due from related parties

	<b>As at 31 December 2023 AED</b>	<b>As at 31 December 2022 AED</b>
Receivable from BMW Albatha Leasing LLC (refer note 13)	49,660	-
Receivable from Arabian Gulf Mechanical Centre (refer note 13)	138,114	-
	<b>187,774</b>	<b>-</b>

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

12 Other liabilities and accruals	As at 31 December 2023 AED	As at 31 December 2022 AED
Customer advances	206,917	365,610
Accruals	166,192	168,230
Employees' end of service benefits (refer note 12.1)	1,429,721	1,112,571
Severance payable	125,108	-
Other liabilities	625,316	706,888
Payable to debt collection agency	38,444	34,545
Net VAT payable	-	68,295
	<u>2,591,698</u>	<u>2,456,139</u>

12.1 The movement of employees' end of service benefits is as follows:

	As at 31 December 2023 AED	As at 31 December 2022 AED
Opening balance	1,112,571	850,758
Charge for the year	296,437	203,647
Benefits paid	(31,621)	(95,202)
Benefits transferred*	52,334	153,368
Closing balance	<u>1,429,721</u>	<u>1,112,571</u>

\*During the year ended 31 December 2023, there has been a transfer of one employee from another group entity which has resulted in the transfer of their related end of service benefits.

### 13 Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Company, related parties, as defined in the International Accounting Standard No. 24, include major shareholders of the Company, entities with common control, directors and officers of the Company and companies of whom they are principal owners and key management personnel. Management decides on the terms and conditions of the transactions and services received/rendered from/to related parties which are on the arm's length basis.

The balances and transactions other than those disclosed in the respective notes to these financial statements are as follows:

a) Balances with related parties included in the statement of financial position are:

	As at 31 December 2023 AED	As at 31 December 2022 AED
<b>Balance due to related parties:</b> (Note 11)		
Payable to AGMC (refer note 13.3)	-	24,857,155
Payable to BMW Finance (UAE) Limited (refer note 13.1)	406,709	2,792,124
Payable to BMW Albatha Leasing LLC (refer note 13.3)	-	5,670,324
	<u>406,709</u>	<u>33,319,603</u>
Deferred income from AGMC (refer note 13.2)	<u>3,827,237</u>	<u>2,755,929</u>

## BMW Albatha Finance PSC

### Notes to the financial statements For the year ended 31 December 2023 (continued)

#### 13 Related party transactions and balances (continued)

	As at 31 December 2023 AED	As at 31 December 2022 AED
<b>Balance due from related parties:</b>		
Receivable from BMW Albatha Leasing LLC	49,660	-
Receivable from AGMC	138,114	-
	<u>187,774</u>	<u>-</u>

a) Transactions with related parties included in the statement of profit or loss and other comprehensive income are:

	For the year ended 31 December 2023 AED	For the year ended 31 December 2022 AED
Recharge to BMW Albatha Leasing LLC (note 13.5)	1,390,101	574,702
Office rent expense to Arabian Gulf Mechanical Centre ("AGMC") (refer note 18)	(99,744)	(99,744)
Cost recharges from BMW Finance (UAE) Limited (note 13.1 and 18)	(5,335,564)	(5,659,786)
Subsidy realization income (note 13.2)	2,466,473	861,674
Funding costs on short term borrowings from related parties (note 13.4)	(21,938)	-
Employees' end of service benefits transferred (note 12.1)	52,334	153,368
Arabian Gulf Mechanical Centre ("AGMC") (note 13.3)	<u>(585,756)</u>	<u>(351,887)</u>

- 13.1 BMW Finance (UAE) Limited recharges costs to the Company as per the terms of the service level agreement dated 24 June 2014 and the addendum to the agreement dated 2 January 2017. The invoices are raised on a quarterly basis and payment is made within 30 days.
- 13.2 The Company entered into several agreements with AGMC to offer subsidized profit rates on cars sold by AGMC during certain promotional periods of current and prior years. Under the agreements, AGMC pays the Company an upfront amount which represents the profit that would be receivable on a similar contract disbursed on commercial terms. This subsidy is initially recorded as unearned income. Subsequently, the subsidy is recognized in the statement of profit or loss and other comprehensive income over the tenure of the financing asset using the effective profit rate.
- 13.3 The amounts payable to AGMC and BMW Albatha Leasing LLC are primarily attributable to the purchases of new and second-hand vehicles.
- 13.4 During the year ended 31 December 2023, the Company took various loans from a related party. The rate for these loans was 1.5% p.a.
- 13.5 The Company recharges costs to BMW Albatha Leasing LLC as per the terms of service agreement, for shared resources that include people and infrastructure.

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 14 Borrowings

The breakup of borrowing costs is shown in the table below:

	For the year ended 31 December 2023 AED	For the year ended 31 December 2022 AED
Cost of funding on borrowings from banks (note 14.1)	9,568,457	3,415,611
Cost of funding on borrowings from related parties (note 13.4)	21,938	-
	<u>9,590,395</u>	<u>3,415,611</u>

14.1 The Company has entered into agreements to avail up to 5-year Murabaha facilities from banks in Dubai to finance its portfolio. The Murabaha facilities, which are revolving in nature, have a total limit of AED 319 million (2022: AED 259 million) and can be utilized in several tranches. The profit charged by the bank on each tranche is fixed and is calculated as a certain mark up over the prevailing market rate.

	As at 31 December 2023 AED	As at 31 December 2022 AED
Opening balance	147,733,974	117,668,351
Borrowing cost for the year	9,590,395	3,415,611
Borrowing costs paid	(4,273,664)	(2,028,432)
New drawdowns during the year	135,500,000	151,178,175
Repayments principal portion	(134,155,898)	(122,499,731)
Closing balance	<u>154,394,807</u>	<u>147,733,974</u>

### 15 Share capital

	As at 31 December 2023 AED	As at 31 December 2022 AED
Issued and paid up capital: 168 million shares of AED 1 each	<u>168,000,000</u>	168,000,000

### 16 Processing fees

This is the fees charged to customers on contracts initiation and is levied at 1% of the financed amount, as per the CB UAE schedule of charges.

### 17 Other income

	For the year ended 31 December 2023 AED	For the year ended 31 December 2022 AED
Recharge to BMW Albatha Leasing LLC (Note 13)	1,390,101	574,702
Income from servicing contracts	414,277	290,586
Income from fixed deposits with a bank	51,985	38,182
Other	85,236	519
	<u>1,941,599</u>	<u>903,989</u>

# BMW Albatha Finance PSC

## Notes to the financial statements For the year ended 31 December 2023 (continued)

### 18 General and administrative expenses

	For the year ended 31 December 2023 AED	For the year ended 31 December 2022 AED
Staff salaries and benefits	4,981,669	3,836,174
Telephone expense	57,720	60,800
Office & other expenses	358,190	477,773
Office rent (refer note 13)	99,744	99,744
Financial expenses	37,245	33,495
Insurance	392,490	226,821
Legal charges	26,182	19,820
Professional charges	223,315	157,360
Service provider recharge (refer note 13)	5,335,564	5,659,786
	<b>11,512,119</b>	<b>10,571,773</b>

18.1 The audit fees for the year ended 31 December 2023 is AED 104,115 (2022: AED 99,170).

### 19 Investment in equity instruments

The Company has not purchased any shares during the year ended 31 December 2023 and 2022.

### 20 Implementation of UAE Corporate Tax Law and application of IAS 12 Income Taxes

On 9 December 2022, the UAE Ministry of Finance released the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 January 2024.

On 16 January 2023, the UAE government published a Cabinet Decision setting the threshold at which the new Corporate Income Tax Law (the "Law") will apply. This event made the Corporate Income Tax Law substantively enacted and enacted within the meaning of IAS 12 Income taxes. Current taxes will only be payable for financial years beginning on or after 1 January 2024 so the Company will be subject to current tax for the first time during the year ended 31 December 2023. However, enactment of the legislation requires the Company to record deferred taxes using the enacted rate of 9%. Management has assessed the impact from a deferred tax perspective to be insignificant on the Company's financial statements for the year ended 31 December 2023. The impact of any future changes in the law will be accounted for when such changes are substantively enacted or enacted.

### 21 Authorization of the financial statements

The financial statements of the Company for the year ended 31 December 2023 were authorized for issue by the Board of Directors of the Company on 27 March 2024. The Board of Directors of the Company have the power to amend the financial statements after issue.

### 22 Subsequent events

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