BMW Albatha Finance PSC

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

For the year ended 31 December 2022

BMW Albatha Finance PSC

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For the year ended 31 December 2022

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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 2022.

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 2022 are set out on page 6 of the financial statements.

Going concern basis

The Board of Directors has reasonable expectation that the Company has adequate resources and support to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2022.

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

BMW Albatha Finance P.S.C
U.A.E.
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Christof Stockhoff
Board member

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

Report on the audit of the financial statements

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 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- 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, which include significant accounting policies and other explanatory information.

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.

Other information

The Directors are responsible for the other information. The other information comprises the Director's 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.

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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Jacques Fakhoury, Douglas O'Mahony, Murad Alnsour and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

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

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 International Financial Reporting 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 the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment 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.
- 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.

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

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

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 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 2022;

(vi) note 13 to the financial statements discloses material related 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 2022 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 2022.

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 our audit.

PricewaterhouseCoopers
8 March 2023

Jacques Fakhoury
Registered Auditor Number 379
Place: Dubai, United Arab Emirates

BMW Albatha Finance PSC

Statement of financial position
As at 31 December 2022

	Notes	As at 31 December 2022 AED	As at 31 December 2021 AED
ASSETS			
Cash and cash equivalents	8.1	**20,227,224**	14,649,799
Fixed deposit with banks	8.2	**3,009,404**	-
Prepayments	10	**1,193,569**	563,742
Islamic financing assets	9	**320,584,891**	274,332,344
Total assets		**345,015,088**	289,545,885
LIABILITIES AND EQUITY			
Liabilities			
Due to related parties	11, 13	**33,319,603**	11,748,136
Borrowings	14	**147,733,974**	117,668,351
Deferred income	13	**2,755,929**	1,009,605
Other liabilities and accruals	12	**2,456,139**	1,558,001
Total liabilities		**186,265,645**	131,984,093
Equity			
Share capital	15	**168,000,000**	168,000,000
Accumulated losses		**(11,838,746)**	(12,593,654)
Statutory reserve		**623,896**	505,131
Credit risk reserve	5	**1,964,293**	1,650,315
Total equity		**158,749,443**	157,561,792
Total liabilities and equity		**345,015,088**	289,545,885

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 2022.

These financial statements were approved and authorised for issue on 8 March 2023 by the Board of Directors and signed on their behalf by:

BMW Albatha Finance P.S.C U.A.E.

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 auditors' 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 2022

	Notes	For the year ended 31 December 2022 AED	For the year ended 31 December 2021 AED
Income			
Income from Islamic financing assets		**12,604,086**	12,763,227
Net change in deferred income	13	**861,674**	553,580
Processing fees	16	**1,606,273**	1,257,687
Other income	17	**903,989**	414,851
Total income		**15,976,022**	14,989,345
Expenses			
Sales commission		**(351,887)**	(429,143)
General and administrative expenses	19	**(10,571,773)**	(9,996,285)
Allowance for impairment loss	9	**(449,100)**	(341,011)
Borrowing costs	14	**(3,415,611)**	(2,938,916)
Total expenses		**(14,788,371)**	(13,705,355)
Profit for the year		**1,187,651**	1,283,990
Other comprehensive income		**-**	-
Total comprehensive income for the year		**1,187,651**	1,283,990

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

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

BMW Albatha Finance PSC

Statement of changes in equity
For the year ended 31 December 2022

	Share capital AED	Accumulated losses AED	Statutory reserve AED	Credit risk reserve AED	Total AED
As at 1 January 2021	168,000,000	(14,618,159)	376,732	2,519,229	156,277,802
Total comprehensive income for the year	-	1,283,990	-	-	1,283,990
Transfer to statutory reserve	-	(128,399)	128,399	-	-
Transfer to credit risk reserve (note 5)	-	868,914	-	(868,914)	-
As at 31 December 2021	168,000,000	(12,593,654)	505,131	1,650,315	157,561,792

	Share capital AED	Accumulated losses AED	Statutory reserve AED	Credit risk reserve AED	Total AED
As at 1 January 2022	**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	**-**	**(118,765)**	**118,765**	**-**	**-**
Transfer to credit risk reserve (note 5)	**-**	**(313,978)**	**-**	**313,978**	**-**
As at 31 December 2022	**168,000,000**	**(11,838,746)**	**623,896**	**1,964,293**	**158,749,443**

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

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

BMW Albatha Finance PSC

Statement of cash flows
For the year ended 31 December 2022

	Notes	For the year ended 31 December 2022 AED	2021 AED
Cash flows from operating activities			
Profit for the year		**1,187,651**	1,283,990
Adjustments for:			
Provision for employees' end of service benefits	12.1	**203,647**	126,468
Allowance for impairment loss	9	**449,100**	341,011
Borrowing costs	14	**3,415,611**	2,938,916
		5,256,009	4,690,385
Changes in operating assets and liabilities and end of service benefits			
Employees' end of service benefits paid	12.1	**(95,202)**	(36,452)
Change in Islamic financing assets	9	**(46,701,647)**	1,965,526
Change in prepayments	10	**(629,827)**	327,857
Change in due to related parties	13	**21,724,835**	(46,932,362)
Change in due from related parties		**-**	20,341,904
Change in other liabilities and accruals	12	**636,325**	86,719
Change in deferred income	13	**1,746,324**	462,447
Net cash used in operating activities		**(18,063,183)**	(19,093,976)
Cash flows from investing activity			
Placement of fixed deposits	8.2	**(3,009,404)**	-
Net cash used in investing activity		**(3,009,404)**	-
Cash flows from financing activities			
Proceeds from borrowings	14	**151,178,175**	133,977,454
Borrowings repaid	14	**(122,499,731)**	(106,917,100)
Borrowing costs paid		**(2,028,432)**	(7,376,867)
Net cash generated from financing activities		**26,650,012**	19,683,487
Net change in cash and cash equivalents		**5,577,425**	589,511
Cash and cash equivalents at the beginning of the year		**14,649,799**	14,060,288
Cash and cash equivalents at the end of the year		**20,227,224**	14,649,799
Cash and cash equivalents comprise of:	8		
Cash in hand		**-**	3,305
Current account with banks		**20,227,224**	14,646,494
Total cash and cash equivalents		**20,227,224**	14,649,799

Non-cash transaction:
During the year ended 31 December 2022, there has been a transfer of three employees from another group entity which has resulted in the transfer of their related end of service benefits amounting to AED 153,368 (Note 12.1).

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

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

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 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 had 12 months from 2 January 2022 to comply with its provisions. The Company is in the process of complying with the provisions and requirements of the law.

Ownership of the Company is held in the name of the BMW Malta Ltd. with 40% holding, Albatha Holding LLC with 30% holding and Arabian Gulf Mechanical Centre (AGMC) Ltd. with 30% holding.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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

The financial statements have been prepared on the basis of going concern basis under the historical cost convention except for derivatives which are measured at fair value and employees' end of service benefits which are measured using the projected unit credit method under IAS 19. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: cash and cash equivalents, fixed deposit with banks, prepayments and due to related parties. The following balances are of mixed nature (including both current and non-current portions): Islamic financing assets, borrowings, other liabilities and accruals and deferred income.

(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.

2 Basis of preparation (continued)

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS 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 recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Information about significant areas of estimation uncertainty and critical judgements that have the most significant effect on the amounts recognised in the financial statements are described in the respective accounting policy notes.

(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 Significant 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective profit and payments during the period, and the amortised 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 recognised in the statement of profit or loss and other comprehensive income.

4 Significant accounting policies (continued)

(b) Revenue recognition

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

The calculation of the effective profit rate includes all fees 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 and deferred income

Murabaha and deferred income are recognised on a time-proportion basis over the period of the contract based on the principal amounts outstanding using the effective profit rate method.

Processing fees and other income

Processing fees which form an integral part of products offered are recognised 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 capitalised 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 recognised 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

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

4 Significant accounting policies (continued)

(c) Property and equipment (continued)

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 recognised 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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: amortised 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.

A financial asset is measured at amortised 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.

4 Significant accounting policies (continued)

(d) Financial instruments (continued)

Classification and subsequent measurement (continued)

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

Derivative financial instruments

The Company enters into derivatives such as cross currency swaps. Derivatives are initially recognised 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 recognised 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.

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.

4 Significant accounting policies (continued)

(d) Financial instruments (continued)

De-recognition (continued)

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 recognised in other comprehensive income is recognised 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 recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective profit method.

Other financial liabilities comprise due to related parties, other liabilities and accruals 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 recognised 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 recognised 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 amortised 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.

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.

4 Significant accounting policies (continued)

(d) Financial instruments (continued)

Impairment (continued)

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.

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.

The management has used the UAE specific Macro-Economic Variables ("MEVs") and conducted a backward analysis due to which the PDs have been computed under three scenarios (Base, Positive, Negative) as (30%, 30%, 40%) as compared to prior year 2021 where only base rate was used at 100%.

4 Significant accounting policies (continued)

(d) Financial instruments (continued)

Impairment (continued)

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-recognised. 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 recognised 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.

4 Significant 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, authorised amount or term. The original facility is derecognized and the new facility is recognised at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognised 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.

4 Significant 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 amortised 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 unlikeliness 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.

(f) Islamic financing assets

Islamic financing assets consist of Murabaha receivables and they are measured at amortised cost less any allowance for impairment losses.

4 Significant accounting policies (continued)

(g) Fees and commission expense

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

(h) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(i) Staff terminal benefits

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labor laws, 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 recognised 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 recognised in the statement of profit or loss in the period in which they are incurred. Accrued borrowing costs are classified under borrowings.

(m) Leases

Leases are recognised as a right-of-use asset ("RoUA") and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees; and

4 Significant accounting policies (continued)

(m) Leases (continued)

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions, as the discount rate to calculate the present value of the lease payments.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- restoration costs.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as the lease income. The Company has not recognized a balance for RoUA and lease liabilities as at 31 December 2022 and 2021, as the lease contract is under one of the group affiliate companies and the Company only accounts for its share of the recharged rental expense only.

(n.1) New and revised IFRSs adopted in the financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these financial statements. The application of these revised IFRSs, 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
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022
Annual improvements on IFRS 9 and IFRS 16	Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'	1 January 2022

4 Significant accounting policies (continued)

(n.2) New and revised IFRSs not yet adopted in the financial statements

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

Title	Key requirements	Effective for annual periods beginning on or after
Amendments to IAS 1	Presentation of financial statements' on classification of liabilities - These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	1 January 2023
Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice Statement 2	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.	1 January 2023
Definition of accounting estimates – Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023

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.

4 Significant accounting policies (continued)

(o) 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 maximise the use of relevant observable inputs and minimise 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 recognised 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 categorised 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.

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 deposit with banks. 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.

5 Financial risk management (continued)

Credit risk (continued)

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 Central Bank of the UAE.

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.

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 2022 and 2021, 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 2022		As at 31 December 2021	
	Gross amount AED	**ECL AED**	Gross amount AED	ECL AED
Gross Islamic financing assets:				
Neither past due nor impaired	**319,705,877**	**1,378,231**	273,020,243	1,111,677
Past due but not impaired	**2,227,744**	**279,577**	2,505,519	335,201
Individually impaired	**812,653**	**503,575**	574,294	320,834
	322,746,274	**2,161,383**	276,100,056	1,767,712

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 2022		As at 31 December 2021	
	Gross amount AED	**ECL AED**	Gross amount AED	ECL AED
Past due up to 29 days	**1,680,215**	**116,634**	1,729,143	133,647
Past due 30-59 days	**341,866**	**81,981**	711,498	177,335
Past due 60-89 days	**205,663**	**80,962**	64,878	24,219
	2,227,744	**279,577**	2,505,519	335,201

The table below classifies the gross balances and ECL of financing assets as at 31 December 2022 and 31 December 2021 by IFRS 9 stages:

	Stage 1 AED	**Stage 2 AED**	**Stage 3 AED**	**Total AED**
Gross balance at 31 Dec 2022	**321,386,092**	**547,529**	**812,653**	**322,746,274**
Gross balance at 31 Dec 2021	274,749,386	776,376	574,294	276,100,056

	Stage 1 AED	**Stage 2 AED**	**Stage 3 AED**	**Total AED**
ECL allowance at 31 Dec 2022	**1,494,865**	**162,943**	**503,575**	**2,161,383**
ECL allowance at 31 Dec 2021	1,245,323	201,555	320,834	1,767,712

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice No.: CBUAE/BSD/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 CBUAE 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)	**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**

	CB UAE Guidelines AED	**IFRS 9 ECL AED**	**Credit risk reserve AED**
Specific provisions (Stage 3 under IFRS 9)	320,834	320,834	-
Collective provisions (Stage 1 and 2 under IFRS 9)	3,097,193	1,446,878	1,650,315
As at 31 December 2021	3,418,027	1,767,712	1,650,315

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 2022 AED	**As at31 December 2021 AED**
Cash and cash equivalents (excluding cash in hand) (refer note 8.	**20,227,224**	14,646,494
Fixed deposit with banks (refer note 8.2)	**3,009,404**	-
Islamic financing assets (net) (refer note 9)	**320,584,891**	274,332,344
	343,821,519	288,978,838

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2022 and 2021. The exposures to all counterparties are monitored on a regular basis. At 31 December 2022 and 2021, the Company has assessed the recoverability of its financial assets and considered provision for expected credit loss to be immaterial for cash and fixed deposit with banks. 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 2022 and 2021, based on external ratings or their equivalent:

Rating	**As at 31 December 2022 AED**	**As at 31 December 2021 AED**
Baa2	**3,648,069**	3,150,490
A and above	**19,588,559**	11,496,004
	23,236,628	14,646,494

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 2022 AED	**As at 31 December 2021 AED**
Gross balance:		
Corporate	**20,854,416**	6,055,444
Individuals	**301,891,858**	270,044,612
	322,746,274	276,100,056

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 2022 amounted to AED 675,410 (31 December 2021: AED 502,266).

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
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**
As at 1 January 2021	276,642,862	1,085,910	463,816	278,192,588
Transfers:				
Transfer from Stage 1	(1,025,092)	621,574	403,518	-
Transfer from Stage 2	660,737	(703,448)	42,711	-
Transfer from Stage 3	-	99,691	(99,691)	-
New assets originated	140,742,612	-	-	140,742,612
Repayments during the year	(142,271,733)	(327,351)	(47,944)	(142,647,028)
Write-offs during the year	-	-	(188,116)	(188,116)
As at 31 December 2021	274,749,386	776,376	574,294	276,100,056

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
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**	**493,096**
As at 31 December 2022	**1,494,865**	**162,943**	**503,575**	**2,161,383**

As at 1 January 2021	556,663	341,573	655,470	1,553,706
Transfers:				
Transfer from Stage 1	(2,063)	1,251	812	-
Transfer from Stage 2	207,835	(221,270)	13,435	-
Transfer from Stage 3	-	140,884	(140,884)	-
New assets originated	283,203	-	-	283,203
Repayments during the year	(286,280)	(102,968)	(67,755)	(457,003)
Write-offs during the year	-	-	(127,005)	(127,005)
Changes in PDs/LGDs/EADs	485,965	42,085	(13,239)	514,811
As at 31 December 2021	1,245,323	201,555	320,834	1,767,712

The prior year allocation of ECL between stages has been realigned in order to more appropriately reflect the ECL applicable to each stage.

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
Financial assets as at 31 December 2022				
Cash and cash equivalents	**20,227,224**	**-**	**-**	**20,227,224**
Fixed deposit at banks	**-**	**3,009,404**	**-**	**3,009,404**
Islamic financing assets	**28,632,315**	**82,979,895**	**208,972,681**	**320,584,891**
Total	**48,859,539**	**85,989,299**	**208,972,681**	**343,821,519**
Financial liabilities as at 31 December 2022				
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 and accruals	**181,326**	**1,162,243**	**1,112,570**	**2,456,139**
Total	**53,606,661**	**82,310,253**	**47,592,802**	**183,509,716**
Liquidity gap	**(4,747,122)**	**3,679,046**	**161,379,879**	**160,311,803**
Financial assets as at 31 December 2021				
Cash and cash equivalents	14,649,799	-	-	14,649,799
Islamic financing assets	25,099,882	72,836,890	176,395,572	274,332,344
Total	39,749,681	72,836,890	176,395,572	288,982,143
Financial liabilities as at 31 December 2021				
Due to related parties	11,748,136	-	-	11,748,136
Borrowings	-	80,519,817	37,148,534	117,668,351
Other liabilities and accruals	199,983	507,260	850,758	1,558,001
Total	11,948,119	81,027,077	37,999,292	130,974,488
Liquidity gap	27,801,562	(8,190,187)	138,396,280	158,007,655

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.

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 2022 and 2021.

	Up to 3 months AED	3 to 12 months AED	1-5 years AED	Total AED
Financial liabilities as at 31 December 2022				
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**
Total	**54,389,797**	**83,576,510**	**53,048,570**	**191,014,877**
Financial liabilities as at 31 December 2021				
Due to related parties	11,748,136	-	-	11,748,136
Borrowings	-	80,865,098	38,298,079	119,163,177
Other liabilities and accruals	199,983	507,261	850,757	1,558,001
Total	**11,948,119**	**81,372,359**	**39,148,836**	**132,469,314**

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 deposit with banks, 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.

5 Financial risk management (continued)

Market risk (continued)

Profit rate risk

The Company has profit rate risk in relation to its Islamic financing assets and borrowings.

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

	As at 31 December 2022 AED	As at 31 December 2021 AED
Fixed rate instruments		
Islamic financing assets	**320,584,891**	274,332,344
Bank borrowings	**147,733,974**	117,668,351

The current 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, so there is no profit rate risk the Company is exposed to.

In case the profit rate would have been under variable rates, if there would be an increase in the profit rate on bank borrowings by 50 basis points it would have increased the borrowing costs for the year ended 31 December 2022 by AED 664 thousand and an equal change in the opposite direction would have decreased the borrowing costs by the same amount. (2021: an increase in profit rate by 50 basis points would have increased the borrowing costs by AED 532 thousand and an equal change in the opposite direction would have decreased the borrowing costs by the same amount).

Price risk

The Company is not exposed to price risk as at 31 December 2022 and 2021. 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.

5 Financial risk management (continued)

Operational risk (continued)

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.

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 Central Bank of the 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 Central Bank of the 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.

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 amortised 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
Financial assets as at 31 December 2022				
Cash and cash equivalents	**20,227,224**	**-**	**-**	**20,227,224**
Fixed deposit with banks	**3,009,404**	**-**	**-**	**3,009,404**
Islamic financing assets	**-**	**-**	**322,746,274**	**322,746,274**
Total	**23,236,628**	**-**	**322,746,274**	**345,982,902**
Financial liabilities as at 31 December 2022				
Due to related parties	**-**	**-**	**33,319,603**	**33,319,603**
Borrowings	**-**	**-**	**147,733,974**	**147,733,974**
Other liabilities and accruals	**-**	**-**	**2,456,139**	**2,456,139**
Total	**-**	**-**	**183,509,716**	**183,509,716**
Financial assets as at 31 December 2021				
Cash and cash equivalents	14,649,799	-	-	14,649,799
Due from related parties	-	-	-	-
Islamic financing assets	-	-	276,100,056	276,100,056
Total	14,649,799	-	276,100,056	290,749,855
Financial liabilities as at 31 December 2021				
Due to related parties	-	-	11,748,136	11,748,136
Borrowings	-	-	117,668,351	117,668,351
Other liabilities and accruals	-	-	1,558,001	1,558,001
Total	-	-	130,974,488	130,974,488

The Company has entered into cross currency swaps against some of its borrowings to convert its USD liability into an AED liability. The notional amount of the derivatives is AED 22,038,000 as at 31 December 2022 maturing on 28 April 2023 (2021: AED 30,118,600). As AED is pegged to USD, the fair value of the derivatives as at 31 December 2022 is immaterial to the financial statements. The derivatives are classified as level 2 in the fair value hierarchy. On the maturity date of a USD drawn-down loan, the forward currency swap is executed. The gross value of the drawn-down loan is exchanged, and the cash flows are executed as per the original agreement. Since the Company does not intend to early settle the USD drawn-down loan, a Mark-to-Market ("MTM") on the forward currency swap does not apply as there will be no early unwinding of the cross-currency swap.

7 Contingent liabilities and commitments

There were no known legal proceedings, other contingent liabilities or undrawn commitments against the Company as at 31 December 2022 and 2021.

8 Cash and bank balances

8.1 Cash and cash equivalents

	As at 31 December 2022 AED	**As at 31 December 2021 AED**
Cash in hand	**-**	3,305
Cash at bank – current accounts	**20,227,224**	14,646,494
	20,227,224	14,649,799

Bank balances in current accounts are held with reputable and good rated local banks. At 31 December 2022 and 2021, the balances with bank in current accounts were profit free and repayable on demand. At 31 December 2022 and 2021, the Company has assessed the recoverability of its cash balance and considered provision for expected credit loss to be immaterial.

8.2 Fixed deposit with banks

	As at 31 December 2022 AED	**As at 31 December 2021 AED**
Fixed deposit	**3,009,404**	-
	3,009,404	-

The fixed deposit is held with a reputable and good rated local bank which is maturing on 29 June 2023. It is a profit bearing deposit with profit rate at 1.5%-1.8% (2021: Nil). 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 2022 AED	**As at 31 December 2021 AED**
Vehicle Murabaha	**322,746,274**	276,100,056
Less: stage 3 provision for ECL	**(503,575)**	(320,834)
Less: stage 1 and 2 provision for ECL	**(1,657,808)**	(1,446,878)
	320,584,891	274,332,344

The movement in the provision for ECL is as follows:

	As at 31 December 2022 AED	**As at 31 December 2021 AED**
Opening balance	**1,767,712**	1,553,706
Add: allowance for impairment loss	**449,100**	341,011
Less: Write-offs	**(55,429)**	(127,005)
	2,161,383	1,767,712

10 Prepayments

	As at 31 December 2022 AED	As at 31 December 2021 AED
Dealer commission	**770,421**	363,104
Insurance	**306,971**	166,975
Prepaid car registration.	**16,400**	15,000
Other prepayments	**99,777**	18,663
	1,193,569	563,742

11. Due to related parties

	As at 31 December 2022 AED	As at 31 December 2021 AED
BMW Finance (UAE) Limited (refer note 13)	**2,792,124**	1,581,317
Arabian Gulf Mechanical Centre (refer note 13)	**24,857,155**	9,541,101
BMW Albatha Leasing LLC (refer note 13)	**5,670,324**	625,718
	33,319,603	11,748,136

12 Other liabilities and accruals

	As at 31 December 2022 AED	As at 31 December 2021 AED
Customer advances	**365,610**	111,682
Accruals	**168,230**	171,736
Employees' end of service benefits (refer note 12.1)	**1,112,571**	850,758
Other liabilities	**706,888**	354,428
Payable to debt collection agency	**34,545**	30,859
Net VAT payable	**68,295**	38,538
	2,456,139	1,558,001

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

	As at 31 December 2022 AED	As at 31 December 2021 AED
Opening balance	**850,758**	760,742
Charge for the year	**203,647**	126,468
Benefits paid	**(95,202)**	(36,452)
Benefits transferred*	**153,368**	-
Closing balance	**1,112,571**	850,758

* During the year ended 31 December 2022, there has been a transfer of three employees from another group entity which has resulted in the transfer of their related end of service benefits.

13 Related party transactions

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, directors and officers of the Company and companies of whom they are principal owners and key management personnel. The 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.

13 Related party transactions (continued)

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 2022 AED	**As at 31 December 2021 AED**
Balance due to related parties: (Note 11)		
Payable to Arabian Gulf Mechanical Centre ("AGMC (refer note 13.3)	**24,857,155**	9,541,101
Payable to BMW Finance (UAE) Limited (refer note 13.1)	**2,792,124**	1,581,317
Payable to BMW Albatha Leasing LLC (refer note 13.3)	**5,670,324**	625,718
	33,319,603	11,748,136
Deferred income from AGMC (refer note 13.2)	**2,755,929**	1,009,605

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

	For the year ended 31 December 2022 AED	**For the year ended 31 December 2021 AED**
Recharge to Albatha Leasing LLC (refer note 17)	**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)	**(5,659,786)**	(6,443,662)
Net change in deferred income (note 13.2)	**861,674**	553,580
Funding costs on short term borrowings from related parties (note 13.4)	-	(202,361)
Employees' end of service benefits transferred (note 12.1)	**153,368**	-
Arabian Gulf Mechanical Centre ("AGMC") (note 13.3)	**(351,887)**	(429,143)

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 recognised 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 2021, the shareholder loan was repaid. Initially AED 20 million was placed by BMW Finance (UAE) Limited and AED 15 million each by Arabian Gulf Mechanical Centre ("AGMC") and Albatha Holding LLC which was reduced to AED 18.4 million by BMW Finance (UAE) limited and AED 13.8 million each by Arabian Gulf Mechanical Centre ("AGMC") and Albatha Holding LLC during the year ended 31 December 2020. The rate for the deposit was 1.5% p.a.

14 Borrowings

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

	For the year ended 31 December 2022 AED	For the year ended 31 December 2021 AED
Cost of funding on borrowings from banks (note 14.1)	**3,415,611**	2,736,555
Cost of funding on borrowings from related parties (note 13.4)	**-**	202,361
	3,415,611	2,938,916

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 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 2022 AED	As at 31 December 2021 AED
Opening balance	**117,668,351**	94,955,935
Borrowing cost for the year	**3,415,611**	2,736,555
Borrowing costs paid	**(2,028,432)**	(7,084,493)
New drawdowns during the year	**151,178,175**	133,977,454
Repayments principal portion	**(122,499,731)**	(106,917,100)
Closing balance	**147,733,974**	117,668,351

15 Share capital

	As at 31 December 2022 AED	As at 31 December 2021 AED
Issued and paid up capital: 168 million shares of AED 1 each	**168,000,000**	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 Central Bank of the UAE ("CBUAE") schedule of charges.

17 Other income

	For the year ended 31 December 2022 AED	For the year ended 31 December 2021 AED
Recharge to BMW Albatha Leasing LLC (Note 13)	**574,702**	-
Income from servicing contracts	**290,586**	287,691
Income from fixed deposit with banks	**38,182**	127,160
Other	**519**	-
	903,989	414,851

18 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 2022 and for the year then ended.

19 General and administrative expenses

	For the year ended 31 December 2022 AED	For the year ended 31 December 2021 AED
Staff salaries and benefits	**3,836,174**	2,471,215
Staff travel	**-**	5,211
Telephone expense	**60,800**	62,416
Office & other expenses	**477,773**	595,037
Office rent (note 13)	**99,744**	99,744
Financial expenses	**33,495**	21,943
Insurance	**226,821**	182,759
Legal charges	**19,820**	18,510
Professional charges	**157,360**	95,788
Service provider recharge (refer note 13)	**5,659,786**	6,443,662
	10,571,773	9,996,285

20 Investment in equity instruments

The Company has not purchased any shares during the year ended 31 December 2022 and 2021.

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

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax regime in the UAE. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods beginning on or after 1 June 2023. Generally, UAE businesses will be subject to a 9% corporate tax rate, while a rate of 0% will apply to taxable income not exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,00 based on information released by the Ministry of Finance). However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, including the threshold mentioned above, that are critical for entities to determine their tax status and the amount of tax due. Therefore, pending such important decisions by the Cabinet, the Company has determined that the Law was not practically operational as at 31 December 2022, and so not enacted or substantively enacted from the perspective of IAS 12 – Income Taxes.

The Company shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine its tax status and the applicability of IAS 12 – Income Taxes. The Company is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

22 Business impact due to Russian invasion of Ukraine

The Russian invasion of Ukraine in February 2022 has resulted in governments around the world introducing significant sanctions on Russian entities and individuals, and triggered disruption across global financial markets and increased uncertainty in the business environment in which the Company operates. At the date of signing, the Company had not incurred any material financial impact associated with the war.

23 Authorisation of the financial statements

The financial statements of the Company for the year ended 31 December 2022 were authorised for issue by the Board of Directors of the Company on 8 March 2023. The Board of Directors of the Company have the power to amend the financial statements after issue.