Reem Finance P.J.S.C.

REPORT OF THE BOARD OF DIRECTORS AND
FINANCIAL STATEMENTS

31 DECEMBER 2023

Reem Finance P.J.S.C.

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2023

Report of the Board of Directors
For the year ended 31 December 2023

The Board of Directors present their report together with the audited financial statements for the year ended 31 December 2023.

Principal activities
The Company is engaged in extending advances for financing trade and business, vehicle finance and personal loans to individuals.

Results for the year
During the year ended 31 December 2023, the Company has generated profit of AED 10,041,155 (2022: AED 34,120,205) and total comprehensive income for the year amounting to AED 10,041,155 (2022: AED 34,120,205).

Board of Directors
The Directors as of 31 December 2023 comprised the following:

Dr. Saleh Al Hashemi	Chairman
Mr. Syed Basar Shueb	Vice Chairman
Majed Fuad Mohammed Odeh	Director
Dr. Huda Abdulla	Director
Ms. Sara Al Bin Ali	Director

Auditors
A resolution proposing the reappointment of Ernst & Young as auditors of the Company for the year ending 31 December 2024 will be put to the members at annual general meeting.

For and on behalf of the
Board of Directors

Chairman

Date 29th March 2024
Abu Dhabi

Reem Finance P.J.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2023

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

REEM FINANCE PJSC

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of Reem Finance P.J.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards),* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter
The financial statements of the Company for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified conclusion on those financial statements on 31 March 2023.

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

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

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Report on the Audit of the Financial Statements continued

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 skepticism 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 the management.

- Conclude on the appropriateness of the 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

REEM FINANCE PJSC continued

Report on Other Legal and Regulatory Requirements

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

i) the Company has maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (32) of 2021, and the Company's Memorandum of Association;

iv) the financial information included in the report of the Board of Directors is consistent with the books of account and records of the Company;

v) note 8 to the financial statements discloses purchases and sales of any shares or stocks during the year;

vi) note 22 reflects the material related party transactions and the terms under which they were conducted;

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 financial year ended 31 December 2023, any of the applicable provisions of the UAE Federal Law No. (32) of 2021 or of its Memorandum of Association which would materially impact its activities or it financial position as at 31 December 2023; and

viii) the Company has not made any social contributions during the year.

Signed by:
Walid J Nakfour
Partner
Ernst & Young
Registration No 5479

29 March 2024
Abu Dhabi

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023

	Notes	***2023 AED***	*2022 AED*
Interest income on loans and advances		**37,361,186**	35,963,481
Interest income on bank deposits		**2,533,804**	202,870
Interest expense on customers' deposits		**(15,491,165)**	(12,661,167)
Net interest income		**24,403,825**	23,505,184
Net fee and commission income		**4,298,085**	2,706,100
Exchange loss		**-**	(4,887,625)
Income from investments at FVTPL	8	**3,960,761**	-
Dividend and investment income, net	19	**1,160,540**	27,506,241
Other operating income / (loss)		**335,353**	(2,696,458)
(Charge)/reversal of allowance for expected credit loses on financial instrument	21	**(4,957,162)**	6,052,934
NET OPERATING INCOME		**29,201,402**	52,186,376
General and administrative expenses	20	**(19,160,247)**	(18,066,171)
PROFIT FOR THE YEAR		**10,041,155**	34,120,205
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,041,155**	34,120,205

The notes on pages 1 to 24 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	*2023 AED*	*2022 AED*
ASSETS			
Cash and bank balances	5	**169,744,858**	87,391,850
Net loans and advances	6	**408,106,735**	283,792,694
Debt securities at amortized cost, net	7	**46,082,981**	131,249,880
Investments at fair value through profit or loss (FVTPL)	8	**37,044,707**	28,412,214
Other assets	9	**46,206,492**	50,407,951
Prepayments and other receivables	10	**19,435,571**	50,458,507
Property, plant and equipment	11	**2,867,091**	198,583
Intangible assets	12	**1,260,592**	1,060,231
TOTAL ASSETS		**730,749,027**	632,971,910
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**400,000,000**	400,000,000
Legal reserve	17	**27,144,310**	26,140,194
Accumulated losses		**(82,968,916)**	(92,005,955)
Total equity		**344,175,394**	334,134,239
Customers' deposits	13	**288,795,670**	247,846,819
Other payables	14	**96,541,279**	50,045,575
Provision for employees' end of service benefits	15	**1,236,684**	945,277
Total liabilities		**386,573,633**	298,837,671
TOTAL LIABILITIES AND EQUITY		**730,749,027**	632,971,910

Dr. Saleh Al Hashemi
Chairman

Mr. Seraj Tariq Faidi
Chief Executive Officer

The notes on pages 1 to 24 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share capital AED	*Legal reserve AED*	*Accumulated losses AED*	*Total AED*
Balance at 1 January 2022	400,000,000	22,728,173	(122,714,139)	300,014,034
Total comprehensive income for the year	-	-	34,120,205	34,120,205
Transfer to legal reserve	-	3,412,021	(3,412,021)	-
Balance at 31 December 2022	400,000,000	26,140,194	(92,005,955)	334,134,239
Balance at 1 January 2023	400,000,000	26,140,194	(92,005,955)	334,134,239
Total comprehensive income for the year	-	-	10,041,155	10,041,155
Transfer to legal reserve	-	1,004,116	(1,004,116)	-
Balance at 31 December 2023	**400,000,000**	**27,144,310**	**(82,968,916)**	**344,175,394**

The notes on pages 1 to 24 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	*2023* *AED*	*2022* *AED*
OPERATING ACTIVITIES			
Profit for the year		**10,041,155**	34,120,205
Adjustments for:			
Depreciation of property and equipment	20	**223,686**	197,010
Amortisation of intangibles assets	20	**56,182**	3,263
Employees' end of service benefits charge	15	**554,198**	556,412
Impairment charge/(reversal) on loans and advances	21	**4,957,162**	(6,052,934)
(Gain)/loss on revaluation of investment property	19	**(12,324,394)**	11,165,625
Gain on sale of investment properties	9	**(150,000)**	(260,294)
Gain on sale of investments at FVTPL	8	**(3,960,761)**	-
Foreign exchange loss		**-**	4,887,625
Unrealised loss/(gain) on fair value changes of investments at FVTPL	19	**11,594,677**	(17,252,977)
Impairment on investment properties	19	**11,425,828**	1,020,000
		22,417,733	28,383,935
Working capital changes:			
Prepayments and other receivables*		**8,806,243**	(9,916,329)
Net loans and advances		**(129,271,203)**	(104,602,474)
Customers' deposits		**40,948,851**	(72,651,623)
Other payables		**46,495,704**	(22,615,912)
End of service benefits paid	15	**(262,791)**	(392,909)
Net cash flow used in operating activities		**(10,865,463)**	(181,795,312)
INVESTING ACTIVITIES			
Purchase of property and equipment	11	**(2,892,194)**	(13,490)
Proceeds from sale of investments at FVTPL & redemption of debt securities at amortised cost**		**91,117,180**	81,678,118
Proceeds from sale of investment properties	9	**5,250,025**	18,320,000
Purchase of intangible assets	12	**(256,540)**	(719,802)
Deposit under lien		**-**	17,000,000
Net cash flow from investing activities		**93,218,471**	116,264,826
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**82,353,008**	(65,530,486)
Cash and cash equivalents at 1 January		**87,391,850**	152,922,336
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	**169,744,858**	87,391,850
*Non-cash transaction - investments transfer (interest receivable)	7.1	**22,216,693**	-
**Non-cash transactions - investments transfer (principle)	8	**45,045,774**	-

The notes on pages 1 to 24 form an integral part of these financial statements.

1 ACTIVITIES

Reem Finance P.J.S.C. (the "Company") is a private joint stock company incorporated on 15 March 2007 registered in the Emirate of Abu Dhabi, United Arab Emirates, in accordance with Federal Law No. (8) of 1984 (as amended) and UAE Companies Law of 2015 (UAE Federal Law No. (2) issued on 1 April 2015).

The Company's registered office is P.O. Box 111422, Abu Dhabi, United Arab Emirates.

The Company is involved in extending advances for financing trade and business, vehicle finance and personal loans to individuals.

The financial statements of the Company for the year ended 31 December 2023 were approved by shareholders on 29 March 2024.

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standard Board (IASB) and the applicable requirements of the UAE Federal Law No. (32) of 2021 and the applicable laws.

2.2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standard Board (IASB).

These financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Company's functional currency since majority of the transactions of the Company are denominated in AED or in currencies currently pegged to the AED. Except as indicated, all financial information presented has been rounded to the nearest thousand.

These financial statements have been prepared on the historical cost convention except for the following:

- Financial assets at fair value through profit or loss which are measured at fair value; and
- Investment properties which are measured at fair values.

Certain comparative figures have been reclassified where appropriate to conform to the presentation adopted in these financial statements.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new standards, interpretations and amendments effective as of 1 January 2023. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- IFRS 17 Insurance Contracts;
- Definition of Accounting Estimates - Amendments to IAS 8;
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2;
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12; and
- International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12.

These amendments had no significant impact on the financial statements of the Company.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION

Revenue recognition
Revenue from contracts with customers and provision of services
The Company recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

Step 1: Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the Company satisfies a performance obligation.

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

a) The Company's performance does not create an asset with an alternate use to the Company and the Company has as an enforceable right to payment for performance completed to date;
b) The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and
c) The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Company satisfies a performance obligation by delivering the promised goods or services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	4 - 6 years
Office equipment	4 - 5 years

2.4 MATERIAL ACCOUNTING POLICY INFORMATION continued

Property and equipment continued
The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

Impairment of non financial assets
At the end of each reporting period, the Company reviews the carrying amounts of its 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.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate or its recoverable amount, but so 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Company’s business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Company’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortised cost
The Company measures financial assets at amortised cost if both of the following conditions are met:

a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION continued

Financial assets at amortised cost continued
Cash and cash equivalents
Cash and cash equivalents which include cash on hand , and bank balance in current accounts and deposits held at call with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

Impairment of financial assets
The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For other receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extents of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION continued

Financial liabilities

Initial recognition and subsequent measurement
At initial recognition, financial liabilities are measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

All financial liabilities are classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts; and
- commitments to provide a loan at a below-market interest rate.

At initial recognition, the Company may irrevocably designate a financial liability as measured at fair value through profit or loss when permitted, or when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the entity’s key management personnel.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

The Company’s financial liabilities include customer deposit and interest and other payables.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Reclassification of financial assets and financial liabilities
Where the Company changes its business model for managing financial assets, it reclassifies all affected financial assets. An entity shall not reclassify any financial liability.

Leases
The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION continued

Leases continued
Company as a lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Provisions
Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' end of service benefits
Pension contributions are made with respect to UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

Provision is made for the end of service benefits due to expatriate employees in accordance with UAE Labour Law.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION continued

Contingencies
Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company’s accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION continued

Current versus non-current classification
The Company presents assets and liabilities in the statement of financial position based on a current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; and
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Value Added Tax (VAT)
Expenses and assets are recognised net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; or
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Intangible assets
Software acquired by the Company is stated at cost less accumulated amortisation and impairment. Subsequent expenditure on software assets is capitalised only when such expenditure increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date. Intangible assets mainly include computer software with an estimated useful life of 4 years. Software licenses are amortised over the period of validity of license.

Amortisation is recognised in the statement of comprehensive income on a straight-line basis, at rates calculated to reduce the cost of assets to their estimated residual value over their expected useful lives.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION continued

Other assets
Investment properties are properties held to earn rentals and/or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Initially investment property is measured at cost including transaction costs. Subsequent to initial recognition, investment property is stated at fair value. Gains and losses arising from changes in fair value of investment property is included in the statement of comprehensive income in the year in which they arise.

Investment property is derecognized when they have either been disposed of or when they have been permanently withdrawn from use and no further benefit is expected from its disposal. Any gains or losses on the derecognition of investment property are recognized in the statement of comprehensive income in the year of derecognition.

UAE Corporate Tax Law
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 (CT) regime in the UAE. The CT regime is effective from 1 June 2023 and accordingly, it has an income tax related impact on the financial statements for accounting periods beginning on or after 1 June 2023.

Decision No. 116 of 2022 (published in December 2022 and considered to be effective from 16 January 2023) specifies that taxable income not exceeding AED 375,000 would be subject to the 0% UAE CT rate, and taxable income exceeding AED 375,000 would be subject to the 9% UAE CT rate. With the publication of this Decision, the UAE CT Law is considered to be substantively enacted for the purposes of accounting for Income Taxes. The UAE CT Law shall apply to the Company with effect from 1 January 2024. The MoF continue to issue supplemental Decisions of the Cabinet of Ministers of the UAE (Decisions) to further clarify certain aspects of the UAE CT Law. Such Decisions, and other interpretive guidance of the UAE Federal Tax Authority, are required to fully evaluate the impact of the UAE CT Law on the Company.

Since the provisions of UAE CT law will apply to Tax Periods commencing on or after 1 June 2023, the related current taxes shall be accounted for in the financial statements for the period beginning 1 January 2024. However, the related deferred tax accounting impact has been considered for the financial year ended 31 December 2023. Following assessment of the potential impact of the UAE CT Law on the balance sheet, management do not consider there to be material temporary differences on which deferred taxes should be accounted.

The Company will continue to monitor the publication of subsequent decisions and related guidance, as well as continuing its more detailed review of its financial matters, to consider any changes to the position at subsequent reporting dates.

2.5 FUTURE CHANGES IN ACCOUNTING POLICICIES - STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- Lease Liability in a Sale and Leaseback- Amendments to IFRS 16;
- Classification of Liabilities as Current or Non-current- Amendments to IAS 1; and
- Supplier Finance Arrangements - Amendments to IAS 7 and IFRS.

The company does not expect that the adoption of these new and amended standards and interpretations will have a material impact on its financial statements.

3 FINANCIAL RISK MANAGEMENT

Overview
The Company has exposure to the following risks from its business activities:

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework
The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Company's Risk Management Framework. The Board has entrusted a number of managers with the risk management function along with setting up and monitoring the Company's credit, liquidity, operational and market risks, and setting market risk limits under which the Company's management operates.

The Company has further set up from within management, the Asset and Liability, ("ALCO") Executive committee, which are responsible for developing and monitoring the Company's risk management policies in their specified areas.

The Company has risk appetite / tolerance limits which is revised annually and monitored regularly.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits, implement controls, monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. 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.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company Audit Committee.

Credit risk
Credit risk is the risk of a 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 loans and advances, bank balances, debt securities and certain other receivables.

Management of credit risk
The Company's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Chief Executive Officer, Head of Credit, the Executive Committee, as deemed appropriate.
- Reviewing and assessing all credit exposures of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, segments, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for Investment at amortised cost).

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Management of credit risk continued

- Developing and maintaining the Company's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. Risk grades are subject to regular reviews.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The risk management team is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Company manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Company may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of Business Units and the Company's credit processes are undertaken by internal audit function.

Credit quality analysis
The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	Stage 1	*Stage 2*	*Stage 3*	*2023 AED Total*	*2022 AED Total*
Cash and bank balances					
Normal	**169,744,858**	-	-	**169,744,858**	87,391,850
Watchlist	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total gross carrying amount	**169,744,858**	-	-	**169,744,858**	87,391,850
Loss allowance (Stage 1 + Stage 2)	-	-	-	-	-
Loss allowance (Stage 3)	-	-	-	-	-
Carrying amount	**169,744,858**	-	-	**169,744,858**	87,391,850
Loans and advances to customers at amortised cost					
Normal	**269,724,022**	**37,705,231**	-	**307,429,253**	207,448,932
Substandard	-	-	-	-	-
Doubtful	-	-	**40,533,369**	**40,533,369**	2,043,604
Loss	-	-	**103,732,483**	**103,732,483**	171,619,188
Total gross carrying amount	**269,724,022**	**37,705,231**	**144,265,852**	**451,695,105**	381,111,724
Loss allowance (Stage 1 + Stage 2)	**(864,766)**	**(6,237,592)**		**(7,102,358)**	(3,704,347)
Loss allowance (Stage 3)	-	-	**(36,486,012)**	**(36,486,012)**	(93,614,683)
Carrying amount	**268,859,256**	**31,467,639**	**107,779,840**	**408,106,735**	283,792,694

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Credit quality analysis continued

	Stage 1	*Stage 2*	*Stage 3*	***2023 AED Total***	*2022 AED Total*
Credit risk exposure relating to off-balance sheet items					
Unfunded exposure	**109,604,303**	-	-	**109,604,303**	8,331,021
Total gross carrying amount	**109,604,303**	-	-	**109,604,303**	8,331,021
Loss allowance	-	-	-	-	-
(Stage 1 + Stage 2)	-	-	-	-	-
Loss allowance (Stage 3)	-	-	-	-	-
Carrying amount	**109,604,303**	-	-	**109,604,303**	8,331,021
Debt securities at amortised cost					
Normal	**33,632,630**	-	-	**33,632,630**	102,885,789
Watchlist	**-**	-	-	-	-
Substandard	**-**	-	-	-	-
Doubtful	**-**	**-**	**17,789,936**	**17,789,936**	34,071,085
Loss	**-**	**-**	**-**	**-**	-
Total gross carrying amount	**33,632,630**	**-**	**17,789,936**	**51,422,566**	136,956,874
Loss allowance (Stage 1 + Stage 2)	**(523,638)**	-	-	**(523,638)**	(891,047)
Loss allowance (Stage 3)	**-**	**-**	**(4,815,947)**	**(4,815,947)**	(4,815,947)
Carrying amount	**33,108,992**	**-**	**12,973,989**	**46,082,981**	131,249,880

Loans and advances to customers
The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Company generally requests that corporate borrowers to provide it. The Company may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Security and Collaterals are bifurcated into following categories:

- Tangible: This includes cash margin, fixed deposits under lien mortgages over immovable assets, pledge of shares, commercial pledge over movable assets.
- Non-tangible: Guarantees and all other collaterals not having any tangible worth / value.

Collateralisation of exposure is supported by proper documentation, charge (registered where required) etc. to ensure its enforceability/reliability.

The Company has collateral valuation guidelines which details the principles and frequency of valuation of securities. The Company monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Loans and advances to customers continued
A refreshed valuation are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the Company accepts fixed assets e.g. property as collateral, these are adequately insured with the Company as loss payee, where-ever applicable. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities, where-ever applicable. All securities are held under the custody of an independent credit administration function.

Amounts arising from ECL
Inputs, assumptions and techniques used for estimating impairment
Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For retail portfolio historical payment behaviour of the exposure is evaluated to determine significant increase in credit risk.

In addition to the quantitative test based on movement of PD, the Company also applies experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

Credit risk grades
The Company allocates each corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

Each Borrower is assigned a credit risk grade on initial recognition based on available information about the borrower's financial information, securities provided to the Company and other relevant qualitative information. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Credit risk grades continued
The monitoring typically involves use of the following information.

Corporate exposures

- Information obtained during periodic review of customer files
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behavior

All exposures

- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Determining whether credit risk has increased significantly
The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between corporate and retail.

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. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Company determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default
The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Company.
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Company formulates three economic scenarios i.e. base case, downside case and upside case separately for all business segments i.e. Retail Finance, Retail Mortgage and Commercial Finance as the key macro-economic drivers for each business segment are identified through regressive analytics. For Retail Finance, the base case, which is the base scenario was statistically assigned a 37.04% probability of occurring, the downside scenario was statistically assigned a 33.33% probability and the upside scenario was statistically assigned a 29.63% probability. For Retail Mortgage, the base case, which is the base scenario was statistically assigned a 29.63% probability of occurring, the downside scenario was statistically assigned a 37.04% probability and the upside scenario was statistically assigned a 33.33% probability. For Commercial Finance, the base case, which is the base scenario was statistically assigned a 29.63% probability of occurring, the downside scenario was statistically assigned a 37.04% probability and the upside scenario was statistically assigned a 33.33% probability. The central scenario is aligned with information used by the Company for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasts.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 3. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Modified financial assets continued
Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. For loans secured by real estate collaterals, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity; and
- industry

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

	Stage 1	*Stage 2*	*Stage 3*	*2023 AED Total*	*2022 AED Total*
Loans and advances to customers at amortised cost					
Beginning of the period	**3,330,854**	**373,493**	**93,614,683**	**97,319,030**	103,544,765
Transfers:					
Transfer from Stage 1 to Stage 2	**(16,246)**	**16,246**	**-**	**-**	-
Transfer from Stage 1 to Stage 3	**(22,126)**	**-**	**22,126**	**-**	-
Transfer from Stage 2 to Stage 1	**186,298**	**(186,298)**	**-**	**-**	-
Transfer from Stage 2 to Stage 3	**-**	**(16,014)**	**16,014**	**-**	-
Transfer from Stage 3 to Stage 2	**-**	**232,279**	**(232,279)**	**-**	-
Net remeasurement of loss allowance	**92,620**	**5,529,355**	**2,355,457**	**7,977,432**	782,392
New financial assets originated	**699,563**	**404,204**	**648,124**	**1,751,891**	4,463,347
Reversal of no longer required impairment charges	**(3,258,271)**	**(69,460)**	**(2,490,207)**	**(5,817,938)**	(11,298,675)
Other movement	**-**	**-**	**888,472**	**888,472**	-
Write offs	**-**	**-**	**(58,530,517)**	**(58,530,517)**	(172,799)
				43,588,370	97,319,030

Debt securities at amortised cost

	Stage 1	*Stage 2*	*Stage 3*	*2023 AED Total*	*2022 AED Total*
Beginning of the period	**891,047**	**-**	**4,815,947**	**5,706,994**	4,815,947
Transfers:					
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	-
Transfer from Stage 2 to Stage 1	**-**	**-**	**-**	**-**	-
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-
Net remeasurement of loss allowance	**-**	**-**	**-**	**-**	-
New financial assets originated	**-**	**-**	**-**	**-**	-
(Reversal) / Charge of no longer required impairment charges	**(367,409)**	**-**	**-**	**(367,409)**	891,047
Write-offs	**-**	**-**	**-**	**-**	-
				5,339,585	5,706,994

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued

	Stage 1	*Stage 2*	*Stage 3*	***2023 AED Total***	*2022 AED Total*
Prepayments and other receivables					
Beginning of the period	-	-	**21,843,595**	**21,843,595**	21,843,595
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Other transfers	-	-	**888,472**	**888,472**	-
Reversal of no longer required impairment charges	-	-	-	-	-
				22,732,067	21,843,595

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Gross maximum exposure

	2023 AED	*2022 AED*
Bank balances	**169,687,329**	87,334,257
Debt securities at amortised cost	**51,422,566**	136,956,874
Loans and advances	**451,695,105**	381,111,724
Other receivables	**42,167,638**	72,302,102
Unfunded exposure	**109,604,303**	8,331,021
Contingent liabilities	**33,383,518**	56,337,374
Total credit risk exposure	**857,960,459**	742,373,352

Write-off policy
The Company writes off a loan or investment balance, and any related suspended interest and allowances for impairment losses, when the management determines that the loan or investment is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral
Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and / or asset types can be considered for approval.

As at 31 December 2023 the Company held credit risk mitigants with an estimated value of AED 785,176,801 *(2022:* AED 614,516,957*)* against receivables from loans and advances and debt securities at amortised cost in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Company accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against placements with banks and other financial institutions, and no such collateral was held at 31 December 2023 or 31 December 2022.

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Collateral continued
The table below stratifies credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio:

LTV ratio	***2023 AED***	*2022 AED*
Less than 50%	**228,239,683**	249,952,189
51 – 70%	**178,039,420**	52,596,992
71 – 90%	**41,525,647**	44,801,023
91 – 100%	**-**	16,902,744
More than 100%	**3,890,355**	16,858,776
Total	**451,695,105**	381,111,724

The Company holds collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of the borrowing and generally updated periodically as per the Company's policy.

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2023 AED	*2022 AED*
Collateral against stage 1	**422,280,029**	167,665,000
Collateral against stage 2	**28,611,691**	175,500,000
Collateral against stage 3	**334,285,080**	271,351,957
Total value of collaterals and other credit enhancements	**785,176,800**	614,516,957

Concentrations of credit risk
The Company monitors concentrations of credit risk by industry sector and by geographic location. An analysis of concentrations of credit risk from loans and advances at the reporting date is shown below:

	2023 AED	*2022 AED*
Concentration by industry		
Real estate	**285,085,463**	257,019,718
Trading	**51,430,443**	31,959,207
Services	**63,315,476**	13,347,976
Construction	**12,686,653**	278,724
Individuals	**8,032,982**	26,832,032
Transport	**10,988,283**	5,000,792
Others	**20,155,805**	46,673,275
Gross loans	**451,695,105**	381,111,724
Less: allowance for impairment	**(43,588,370)**	(97,319,030)
Carrying amount	**408,106,735**	283,792,694

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued
Concentrations of credit risk continued

	Bank balances		Net loans and advances		Debt securities at amortised cost		Prepayments and other receivables		Unfunded exposure	
	2023	*2022*	***2023***	*2022*	***2023***	*2022*	***2023***	*2022*	***2023***	*2022*
	AED	*AED*	***AED***	*AED*	***AED***	*AED*	***AED***	*AED*	***AED***	*AED*
Concentration by sector:										
Public sector	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Private sector	**-**	-	**451,695,105**	381,111,724	**17,789,936**	102,885,794	**42,167,638**	72,302,102	**109,604,303**	8,331,021
Financial institutions	**169,687,329**	87,334,257	**-**	-	**33,632,625**	34,071,080	**-**	-	**-**	-
Gross amount	**169,687,329**	87,334,257	**451,695,105**	381,111,724	**51,422,566**	136,956,874	**42,167,638**	72,302,102	**109,604,303**	8,331,021
Less: Allowance for ECL	**-**	-	**(43,588,370)**	(97,319,030)	**(5,339,585)**	(5,706,994)	**(22,732,067)**	(21,843,595)	**-**	-
Carrying amount	**169,687,329**	87,334,257	**408,106,735**	283,792,694	**46,082,981**	131,249,880	**19,435,571**	50,458,507	**109,604,303**	8,331,021
Concentration by location:										
UAE	**169,687,329**	87,334,257	**399,430,455**	275,116,414	**46,082,981**	66,191,652	**19,435,571**	28,238,646	**109,604,303**	8,331,021
Europe	**-**	-	**-**	-	**-**	22,458,507	**-**	22,219,861	**-**	-
GCC	**-**	-	**8,676,280**	8,676,280	**-**	42,599,721	**-**	-	**-**	-
North America	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Asia	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Others	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
	169,687,329	87,334,257	**408,106,735**	283,792,694	**46,082,981**	131,249,880	**19,435,571**	50,458,507	**109,604,303**	8,331,021

3 FINANCIAL RISK MANAGEMENT continued

Credit risk continued

Settlement risk

The Company's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Company mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is disclosed in note 19 to the financial statements.

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.

Management of liquidity risk

The Company's Board of directors sets the Company's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. Board approves the Company's liquidity policies and procedures. Treasury department manages the Company's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Company.

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

Management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Company maintains a portfolio of short-term liquid assets, largely made up of short-term liquid financial assets at fair value through profit or loss, and inter-bank placements to ensure that sufficient liquidity is maintained within the Company as a whole.

The Company relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a proportion of them are repayable on demand. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

3 FINANCIAL RISK MANAGEMENT continued

Management of liquidity risk continued
The maturity profile of financial assets and liabilities at 31 December 2023 was as follows:

	Upto 3 months AED	*3 months to 1 year AED*	*1 to 3 years AED*	*3 to 5 years AED*	*Over 5 years AED*	*Total AED*
Assets						
Cash and bank balances	169,689,858	-	55,000	-	-	169,744,858
Net loans and advances	61,894,727	28,918,266	150,955,605	137,047,734	29,290,403	408,106,735
Debt securities at amortised costs	31,408,783	1,700,213	12,973,985	-	-	46,082,981
Other financial assets	-	16,930,931	-	-	-	16,930,931
Investments at FVTPL	37,044,707	-	-	-	-	37,044,707
Total assets	**300,038,075**	**47,549,410**	**163,984,590**	**137,047,734**	**29,290,403**	**677,910,212**
Liabilities						
Customers' deposits	67,473,811	206,521,859	14,800,000	-	-	288,795,670
Other financial liabilities	5,926,490	57,248,838	32,580,797	785,154	-	96,541,279
Total liabilities	**73,400,301**	**263,770,697**	**47,380,797**	**785,154**	**-**	**385,336,949**
Off Balance sheet						
Letter of guarantees	**-**	**33,383,518**	**-**	**-**	**-**	**33,383,518**
Unfunded exposure	**-**	**109,604,303**	**-**	**-**	**-**	**109,604,303**
	-	**142,987,821**	**-**	**-**	**-**	**142,987,821**

The maturity profile of financial assets and liabilities at 31 December 2022 was as follows:

	Upto 3 months AED	*3 months to 1 year AED*	*1 to 3 years AED*	*3 to 5 years AED*	*Total AED*
Assets					
Cash and bank balances	87,391,850	-	-	-	87,391,850
Net loans and advances	25,785,703	29,463,712	160,433,802	68,109,477	283,792,694
Debt securities at amortised cost	-	31,462,405	99,787,475	-	131,249,880
Other financial assets	-	40,469,777	-	-	40,469,777
Investments at FVTPL	28,412,214	-	-	-	28,412,214
Total assets	141,589,767	101,395,894	260,221,277	68,109,477	571,316,415
Liabilities					
Customers' deposits	23,751,374	97,649,215	126,446,230	-	247,846,819
Other financial liabilities	649,359	3,516,490	45,879,726	-	50,045,575
Total liabilities	24,400,733	101,165,705	172,325,956	-	297,892,394
Off Balance sheet					
Letter of guarantees	-	-	56,337,374	-	56,337,374
Unfunded exposure	-	8,331,021	-	-	8,331,021
	-	8,331,021	56,337,374	-	64,668,395

3 FINANCIAL RISK MANAGEMENT continued

Market risk
Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Company's income 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, while optimising the return on risk.

Management of market risk
Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

There has been no change in the manner in which the Company manages and measures market risk.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Company is exposed to interest rate risk on its interest-bearing assets and liabilities.

The following table demonstrates the sensitivity of the statement of profit or loss and other comprehensive income to a reasonably possible change in interest rates, with all other variables held constant, of the Company's result for the year.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various interest rate scenarios. The Company assumes a fluctuation in interest rates of 500 basis points *(2022: 500 basis points)* and estimates the following impact on the profit for the year at that date:

	2023 Interest for the year AED	*2022 Interest for the year AED*
Fluctuation in yield	**10,716,100**	11,498,168

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 503,117,666 interest bearing assets at year end (2022: AED 514,412,545) and AED 288,795,670 interest bearing liabilities at year end (2022: AED 284,449,176). The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

The interest rate movements have an effect on retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Company's functional currency is the UAE Dirham. As at 31 December 2023, the Company had the following significant net exposures denominated in foreign currencies:

	Net spot position AED	*Forward position AED*	***Net Exposure 2023 AED***	*Net Exposure 2022 AED*
Currency				
GBP	33,508,776	-	**33,508,776**	45,045,777

3 FINANCIAL RISK MANAGEMENT continued

Market risk continued

Sensitivity analysis

For all such investments, a 10% increase in the fair value of investment at fair value through profit or loss as at the reporting date would have increased net profit by AED 5.4 million (2022: AED 5.1 million). An equal change in the opposite direction would have decreased net profit by same.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including 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 behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Company has established a framework of policies and procedures to identify, assess, control, manage and report risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Department. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

Capital management

The Company is licensed and regulated by the Central Bank of the UAE. The Central Bank's capital adequacy stipulation for finance companies is a minimum of 15%. The Company's capital adequacy ratio as at 31 December 2023 is 59.2% (2022: 56.5%) which is in line with the Company's policy of maintaining a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Company's capital adequacy position at the end of the reporting year was as follows:

	2023 AED	*2022 AED*
Capital base	**332,873,649**	300,014,032
Risk weighted assets	**562,284,691**	531,090,479
Capital adequacy (Total capital base/total risk weighted assets)	**59.2%**	56.5%

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Key sources of estimation uncertainty
Allowances for credit losses
Impairment losses are evaluated as described in accounting policy 3.

The Company evaluates impairment on loans and advances and investments on an on-going basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about the counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Determining fair values
The determination of fair value for financial assets and liabilities of which there is no observable market price requires the use of valuation techniques as described in accounting policy 3. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degree of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Company's accounting policies
Critical accounting judgements made in applying the Company's accounting policies include:

Financial assets and liabilities classification
The Company's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, such as in classifying financial assets as at fair value through profit or loss or as at fair value through other comprehensive income, the Company has determined that it meets the description as set out in accounting policy 3.

Valuation of financial instruments
The Company's accounting policy on fair value measurements is discussed in accounting policy 3.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

Critical accounting judgements in applying the Company's accounting policies continued
Fair value hierarchy:
Fair value measurements recognised in the statement of financial position
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**: Quoted market price (unadjusted) in an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

- **Level 2**: Valuation techniques based on observable inputs, 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 where all significant inputs are directly or indirectly observable from market data.

- **Level 3**: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Valuation of financial instruments
Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Observable prices and model inputs are usually available in the market for listed equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

Critical accounting judgements in applying the Company's accounting policies continued
Valuation of financial instruments continued
The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED	*Level 2 AED*	*Level 3 AED*	*Total AED*
At 31 December 2023				
Financial assets				
Investments at FVTPL	**-**	**-**	**37,044,707**	**37,044,707**
Other assets	**-**	**-**	**58,652,320**	**58,652,320**
	-	**-**	**95,697,027**	**95,697,027**
At 31 December 2022				
Financial assets				
Investments at FVTPL		-	28,412,214	28,412,214
Other assets	-	-	51,427,951	51,427,951
	-	-	79,840,165	79,840,165

Although the Company believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values.

Accounting classifications and fair values
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The fair values of due from banks, customers' deposits and debt securities, that are predominantly short-term in tenure and issued at market rates are considered to reasonably approximate their book value.

The Company estimates that the fair value of its loans and advances portfolio is not materially different from its book value. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of co4llection, the net result of which is not materially different from the carrying value.

5 BANK BALANCES AND CASH

	2023 AED	*2022 AED*
Cash in hand	**2,529**	57,593
Bank balances with the Central Bank of the UAE	**166,512,931**	10,415,923
Current account with banks	**3,174,398**	76,918,334
Fixed deposits with non-Islamic bank	**55,000**	-
Cash and cash equivalents	**169,744,858**	87,391,850

6 NET LOANS AND ADVANCES

	2023 AED	*2022 AED*
Retail:		
Personal finance	**5,602,126**	25,498,737
Mortgage finance	**2,430,857**	1,333,294
	8,032,983	26,832,031
Corporate:		
Commercial finance	**124,115,186**	113,338,761
Mortgage finance	**319,546,936**	240,940,932
	443,662,122	354,279,693
Loans and advances	**451,695,105**	381,111,724
Less:		
Expected credit losses – stage 3	**(36,486,012)**	(93,614,683)
Expected credit losses – stage 1 and stage 2	**(7,102,358)**	(3,704,347)
Net loan and advances	**408,106,735**	283,792,694

Movement in provision for loan losses during the year is as follows:

At 1 January	**97,319,030**	103,544,765
Charge/(reversal) during the year	**4,799,857**	(6,052,936)
Net write-off	**(58,530,517)**	(172,799)
At 31 December	**43,588,370**	97,319,030

7 DEBT SECURITIES AT AMORTISED COST

	2023 AED	*2022 AED*
Debt investment measured at amortised cost		
Corporate bonds	**46,082,981**	131,249,880

Movement in investments in debt securities as follows:

	2023 AED	*2022 AED*
Beginning of the year	**136,956,874**	165,141,865
Redeemed during the year	**(62,708,392)**	(21,958,289)
Transfer during the year (note 7.1)	**(22,825,916)**	(6,226,702)
	51,422,566	136,956,874
Expected credit losses	**(5,339,585)**	(5,706,994)
End of the year	**46,082,981**	131,249,880

7 DEBT SECURITIES AT AMORTISED COST continued

Movement in provision of debt investment during the year is as follows:

	2023	2022
	AED	*AED*
Beginning of the year	**5,706,994**	4,815,947
(Reversal) / charge during the year, net of modification	**(367,409)**	891,047
End of the year	**5,339,585**	5,706,994

Note 7.1 – The transfer in debt securities is related to business model change of an investment. As of 31st December 2022, the security was classified as a debt instrument measured at amortised cost and as of 31st December 2023, the security is classified as investments at fair value through profit or loss because management intention is to hold this investment for an immediate sale. AED 22.8 million is transferred from debt securities and AED 22.2 million is transferred from interest receivable on debt securities. This instrument is measured at fair value as of the reporting date.

8 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

This represents equity investments, primarily in partnership funds, and are held for trading purposes.

Movement in investments classified at fair value through profit or loss as follows:

	2023	2022
	AED	*AED*
Beginning of the year	**28,874,549**	70,454,035
Transfer during the year (note 7.1)	**45,045,774**	887,366
Sold during the year	**(28,411,955)**	(59,719,829)
Unrealised (loss)/gain on fair value changes of investments at FVTPL	**(11,594,677)**	17,252,977
Other movements	**(829,745)**	(462,335)
Gain on disposal of investments	**3,960,761**	-
End of the year	**37,044,707**	28,412,214

9 OTHER ASSETS

This represents movement in investments properties for the year ended 31 December:

	2023	2022
	AED	*AED*
Beginning of the year	**51,427,951**	69,487,657
Disposal during the year	**(5,250,025)**	(18,320,000)
Changes in fair value	**12,324,394**	-
Gain on disposal	**150,000**	260,294
Fair value	**58,652,320**	51,427,951
Impairment as required by the Central Bank of UAE (CBUAE)	**(12,445,828)**	(1,020,000)
End of the year	**46,206,492**	50,407,951

9 OTHER ASSETS continued

Movement in provision for other assets during the year is as follows:

	2023 ***AED***	*2022* *AED*
At 1 January	**1,020,000**	-
Charge during the year	**11,425,828**	1,020,000
At 31 December	**12,445,828**	1,020,000

The investment properties of the Company consist of vacant lands, residential and commercial units in Abu Dhabi and Dubai. These properties must be recorded under other assets in the statement of financial position until disposal and cannot be reclassified into other categories (such as investment properties) as per the CBUAE guidelines.

Amount recognised in profit and loss
Rental income recognised by the Company during 2023 was AED 258,341 (2022: AED 491,077) and was included in "Dividend & Investment income, net". Further, a fair value gain of AED 12,324,394 (2022: Nil) was recognised in profit or loss.

10 PREPAYMENTS AND OTHER RECEIVABLES

	2023 ***AED***	*2022* *AED*
Interest receivables on loans and advances	**39,164,307**	36,327,777
Provision against interest receivables on loans and advances	**(22,732,067)**	(21,843,595)
Interest receivables on loans and advances, net	**16,432,240**	14,484,182
Interest receivables on debt securities	**498,691**	25,985,595
Prepayments	**1,888,834**	1,505,128
Deposits	**557,940**	417,929
Other receivables	**57,866**	8,065,673
	19,435,571	50,458,507

11 PROPERTY AND EQUIPMENT

	Furniture and fixtures AED	*Office equipment AED*	*Total AED*
Cost:			
At 1 January 2022	1,893,315	2,992,025	4,885,340
Additions	-	13,490	13,490
At 31 December 2022	1,893,315	3,005,515	4,898,830
At 1 January 2023	1,893,315	3,005,515	4,898,830
Additions	2,652,119	240,075	2,892,194
At 31 December 2023	**4,545,434**	**3,245,590**	**7,791,024**
Accumulated depreciation:			
At 1 January 2022	1,724,761	2,778,476	4,503,237
Charge for the year	124,215	72,795	197,010
At 31 December 2022	1,848,976	2,851,271	4,700,247
At 1 January 2023	1,848,976	2,851,271	4,700,247
Charge for the year	153,982	69,704	223,686
At 31 December 2023	**2,002,958**	**2,920,975**	**4,923,933**
Net carrying amount:			
At 31 December 2023	**2,542,476**	**324,615**	**2,867,091**
At 31 December 2022	44,339	154,244	198,583

12 INTANGIBLE ASSETS

	Software AED
2023:	
Cost:	
At 1 January 2023	6,276,660
Additions	256,540
At 31 December 2023	**6,533,200**
Accumulated amortisation:	
At 1 January 2023	5,216,426
Charge for the year	56,182
At 31 December 2023	**5,272,608**
Net book value:	
At 31 December 2023	**1,260,592**

12 INTANGIBLE ASSETS continued

	Software *AED*
2022:	
Cost:	
At 1 January 2022	5,556,858
Additions	719,802
At 31 December 2022	6,276,660
Accumulated amortisation:	
At 1 January 2022	5,213,166
Charge for the year	3,263
At 31 December 2022	5,216,429
Net book value:	
At 31 December 2022	1,060,231

13 CUSTOMERS' DEPOSITS

	2023 ***AED***	*2022* *AED*
Customer deposits - Term	**259,370,321**	228,146,534
Customer deposits - Under lien	**29,425,349**	19,700,285
	288,795,670	247,846,819

14 OTHER PAYABLES

	2023 ***AED***	*2022* *AED*
Interest payable on customers' deposits	**14,042,258**	7,375,332
Margins received against letters of guarantee	**28,609,208**	36,602,357
Other payable	**53,889,813**	6,067,886
	96,541,279	50,045,575

15 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The movement in the provision for employees' end of service benefits was as follows:

	2023 ***AED***	*2022* *AED*
At 1 January	**945,277**	781,774
Provided during the year	**554,198**	556,412
Paid during the year	**(262,791)**	(392,909)
At 31 December	**1,236,684**	945,277

16 SHARE CAPITAL

	2023 AED	2022 AED
Authorised, issued and fully paid		
Ordinary shares 400,000,000 shares of AED 1 each	**400,000,000**	400,000,000

17 LEGAL RESERVE

In accordance with UAE Federal Decree Law No. 32 of 2021 and the Company's Articles of Association, 10% of the profit for each year is transferred to the legal reserve until this reserve equals 50% of the paid-up share capital. The legal reserve is not available for distribution. There has been a transfer to the reserve during the year of AED 1,004,115 (2022: AED 3,412,021).

18 CONTINGENCIES AND COMMITMENTS

	2023 AED	2022 AED
Letters of guarantee	**33,383,518**	56,337,374
Unfunded exposure	**109,604,303**	8,331,021
	142,987,821	64,668,395

19 INVESTMENT INCOME, NET

	2023 AED	2022 AED
Rental income	**258,341**	491,077
Changes in fair value of investment properties	**12,324,394**	(11,165,625)
Impairment on investment properties	**(11,425,828)**	(1,020,000)
Interest income on debt securities	**6,218,216**	19,400,503
Net realised gain on investments classified as fair value through profit or loss	**5,380,094**	2,547,309
Unrealised (loss)/gain on fair value changes of investments at FVTPL	**(11,594,677)**	17,252,977
	1,160,540	27,506,241

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2023 AED	2022 AED
Staff cost	**14,192,108**	13,501,985
Other expenses	**2,044,803**	1,912,903
IT maintenance cost	**1,733,236**	1,875,319
Office rent	**844,922**	532,893
Depreciation	**223,686**	197,010
Bank charges	**65,310**	42,798
Amortisation	**56,182**	3,263
	19,160,247	18,066,171

21 CHARGE / (REVERSAL) OF ALLOWANCE FOR EXEPECTED CREDIT LOSSES ON FINANCIAL INSTRUMENTS

	2023	*2022*
	AED	*AED*
Impairment / (reversal of impairment) on loans and advances	**4,799,855**	(7,114,207)
Write off on account of loan and advances	**157,307**	1,061,273
	4,957,162	(6,052,934)

22 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. associated companies, major shareholders, directors and key management personnel of the Company, entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the management.

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

	2023	*2022*
	AED	*AED*
Transactions with related parties:		
Deposits	**83,995,315**	40,579,493
Key management personnel of the Company:		
Other payables	**602,347**	400,263

Significant transactions with related parties during the year included in the statement of comprehensive income were as follows:

	2023	*2022*
	AED	*AED*
Key management remuneration:		
Director’s remuneration	**750,000**	1,000,000
Short term benefits (salaries and benefits)	**3,522,287**	3,259,313

Short term benefits of key management remuneration includes salary and other perquisites for the top three officials of the Company.

23 ACCOUNTING CLASSIFICATION

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

	Amortised *AED*	*Total* *AED*
Assets		
Cash and bank balances	**169,744,858**	**169,744,858**
Net loans and advances	**408,106,735**	**408,106,735**
Debt securities at amortised cost	**46,082,981**	**46,082,981**
Prepayments and other receivables	**19,435,571**	**19,435,571**
Total assets	**643,370,145**	**643,370,145**
Liabilities		
Customers' deposits	**288,795,670**	**288,795,670**
Other payables	**96,541,279**	**96,541,279**
Total liabilities	**385,336,949**	**385,336,949**

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

	Amortised cost *AED*	*Total* *AED*
Assets		
Cash and bank balances	87,391,850	87,391,850
Net loans and advances	283,792,694	283,792,694
Debt securities at amortised cost	131,249,880	131,249,880
Prepayments and other receivables	50,458,507	50,458,507
Total assets	552,892,931	552,892,931
Liabilities		
Customers' deposits	247,846,819	247,846,819
Other payables	50,045,575	50,045,575
Total liabilities	297,892,394	297,892,394

24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, net loans and advances, investments and other assets. Financial liabilities consist of customer deposits and other payables.

The fair values of financial instruments are not materially different from their carrying values at the reporting date.