2021 ANNUAL REPORT

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

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

Report and financial statements
for the year ended 31 December 2021

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

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Board of Directors' report

The Board of Directors have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2021.

Incorporation and registered offices

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

Principal activities

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

Financial position and results

The financial position and results of the Company for the year ended 31 December 2021 are set out in the accompanying financial statements.

Directors

The following were the Directors of the Company for the year ended 31 December 2021:

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

Auditors

The financial statements for the year ended 31 December 2021 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

Ali Raza Khan

31 March 2022

Independent auditor's report to the shareholders of Mashreq Al-Islami Finance Company (P.J.S.C.)

Report on the audit of the financial statements

Our qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section in our report, the financial statements present fairly, in all material respects, the financial position of Mashreq Al-Islami Finance Company (P.J.S.C.) (the "Company") as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

As set out in note 7 and in order to comply with regulatory requirements of the Central Bank of UAE, other assets as at 31 December 2021 comprise properties held for sale of AED 58 million, net of provision for impairment (31 December 2020: AED 58 million). International Financial Reporting Standards ("IFRS") requires such properties held for sale to be measured at the lower of carrying amount or fair value less cost to sell. Management has not performed an assessment to determine the appropriate carrying amount of these properties based on the requirements of IFRS. Accordingly, we have been unable to determine whether any adjustments are required to the measurement of these properties held for sale as at 31 December 2021 and 31 December 2020. Further, these properties should have been separately presented in the statement of financial position as properties held for sale at 31 December 2021 and 31 December 2020.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

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

Independent auditor's report to the shareholders of Mashreq Al-Islami Finance Company (P.J.S.C.) (continued)

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, and for such internal control as the Directors determine 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, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report to the shareholders of Mashreq Al-Islami Finance Company (P.J.S.C.) (continued)

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Independent auditor's report to the shareholders of Mashreq Al-Islami Finance Company (P.J.S.C.) (continued)

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. (2) of 2015, as amended, we report that:

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

(ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 as amended;

(iii) the Company has maintained proper books of account;

(iv) the financial information included in the Director's report is consistent with the books of account of the Company;

(v) as disclosed in note 20 to the financial statements the Company has not purchased or invested in any shares during the financial year ended 31 December 2021;

(vi) note 9 to the financial statements discloses material related party transactions and the terms under which they were conducted; and

(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021.

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

PricewaterhouseCoopers
31 March 2022

Douglas O'Mahony
Registered Auditor Number: 834
Place: Dubai, United Arab Emirates

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PricewaterhouseCoopers

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

Statement of financial position

	Note	As at 31 December 2021 AED'000	2020 AED'000
ASSETS			
Cash and cash equivalents	5	**51,418**	51,267
Islamic financing products measured at amortised cost	6	**1,164,954**	1,125,245
Other assets	7	**58,213**	58,073
Total assets		**1,274,585**	1,234,585
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Parent Company	9	**455,424**	455,332
Other liabilities	8	**2,434**	2,504
Total liabilities		**457,858**	457,836
EQUITY			
Issued and paid-up share capital	10	**500,000**	500,000
Statutory reserve	11	**41,646**	37,648
Retained earnings		**275,081**	239,101
Total equity		**816,727**	776,749
Total liabilities and equity		**1,274,585**	1,234,585

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Ali Raza Khan

The accompanying notes form an integral part of these financial statements

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

Statement of profit or loss and other comprehensive income

	Note	For the year ended 31 December 2021 AED'000	2020 AED'000
Income			
Income from Murabaha		**1,964**	3,436
Income from Ijarah		**43,600**	49,150
Total income from Islamic financing products measured at amortised cost		**45,564**	52,586
Profit income on certificate of deposits		**67**	7
Fees and commission income	12	**1,207**	917
Total income		**46,838**	53,510
Expenses			
General and administrative expenses	13	**(13,899)**	(18,119)
Reversal / (charge) on allowance for impairment, net	14	**7,039**	(12,610)
Total expenses		**(6,860)**	(30,729)
Change in fair value of properties	7	**-**	(14,910)
Profit for the year		**39,978**	7,871
Other comprehensive income		**-**	-
Total comprehensive income for the year		**39,978**	7,871

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

Statement of changes in equity

	Issued and paid up share capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2020	500,000	36,861	232,017	768,878
Profit for the year	-	-	7,871	7,871
Total comprehensive income for the year	-	-	7,871	7,871
Transfer to statutory reserve (Note 11)	-	787	(787)	-
Balance at 31 December 2020	500,000	37,648	239,101	776,749
Profit for the year	**-**	**-**	**39,978**	**39,978**
Total comprehensive income for the year	**-**	**-**	**39,978**	**39,978**
Transfer to statutory reserve (Note 11)	**-**	**3,998**	**(3,998)**	**-**
Balance at 31 December 2021	**500,000**	**41,646**	**275,081**	**816,727**

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

Statement of cash flows

	Note	For the year ended 31 December 2021 AED'000	2020 AED'000
Cash flows from operating activities			
Profit for the year		**39,978**	7,871
Adjustments for			
Allowance for impairment, net	14	**(7,039)**	12,610
Fair value adjustment on properties	7	**-**	14,910
Operating cash flows before changes in operating assets and liabilities		**32,939**	35,391
Changes in assets and liabilities			
(Increase)/decrease in Islamic financing products measured at amortised cost	6	**(32,670)**	54,876
Increase in other assets		**(140)**	(48)
Decrease in other liabilities		**(70)**	(374)
Net cash generated from operating activities		**59**	89,845
Cash flows from financing activity			
Increase/(decrease) in due to Parent Company		**92**	(39,845)
Net cash generated from/(used in) financing activity		**92**	(39,845)
Net increase in cash and cash equivalents		**151**	50,000
Cash and cash equivalents as at 1 January		**51,267**	1,267
Cash and cash equivalents as at 31 December	5	**51,418**	51,267

1 General information

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

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

The shareholders and their respective share holdings are as follows:

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

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

Internal Shari'ah Supervision Committee

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

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

2.1 New and revised IFRS applied on the financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior years.

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

- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

  - Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective profit rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

  - End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

  - Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

  - Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant profit rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The impact of the above amendment is immaterial on the financial statements of the Company.

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

2.1 New and revised IFRS applied on the financial statements (continued)

- **Amendment to IFRS 16, 'Leases' - Covid-19 related rent concessions** - As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

The impact of the above amendment is immaterial on the financial statements of the Company.

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted

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

New standards, amendments and interpretations	**Effective for annual periods beginning on or after**
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.	1 January 2023

The impact of the above amendment is expected to be immaterial on the financial statements of the Company

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities -** These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	Deferred until accounting periods starting not earlier than 1 January 2024

The impact of the above amendment is expected to be immaterial on the financial statements of the Company.

• **Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16**	1 January 2022

Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16** Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.	1 January 2022

The impact of the above amendments is expected to be immaterial on the financial statements of the Company.

• **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8** - The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	1 January 2023

The impact of the above amendments is expected to be immaterial on the financial statements of the Company.

• **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction -** These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023

The impact of the above amendments is expected to be immaterial on the financial statements of the Company.

There are no other relevant applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Company's financial year beginning on 1 January 2022 that would be expected to have a material impact on the financial statements of the Company.

3 Summary of significant accounting policies

3.1 Statement of compliance

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

The Company is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended.

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Company has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

3.2 Basis of preparation

The financial statements of the Company have been prepared on the historical cost basis except for properties which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies used in the preparation of these financial statements are consistent with the audited annual financial statements for the year ended 31 December 2020.

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

In September 2021, the Company obtained approval from the Central Bank of UAE ("CBUAE") on voluntary withdrawal of the Central Bank license subject to the Company fulfilling the conditions outlined by CBUAE. Further, in November 2021, the shareholders approved a special resolution to liquidate the Company and transfer the assets and liabilities of the Company to the Parent Company. The Company is in the process of fulfilling the conditions and until such time the conditions are fulfilled the Company will continue as going concern. Accordingly, the financial statements have been prepared on a going concern basis.

The principal accounting policies adopted are set out below.

3.3 Revenue recognition

(a) Income from Islamic financing and investments products

The Company's policy for recognition of income from Islamic financing and investments products is described in Note 3.9.

3 Summary of significant accounting policies (continued)

3.3 Revenue recognition (continued)

(b) Fee and commission income and expenses

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

3.4 Foreign currency transactions

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency in which the majority of its transactions are denominated ('the functional currency'). These financial statements are presented in United Arab Emirates Dirham (AED), which is the currency of the country in which the Company is domiciled.

(b) Transactions and balances

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the end of the reporting year. Gains and losses arising from foreign currency transactions are included in the statement of profit or loss and other comprehensive income.

3.5 Impairment of non-financial assets

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

3 Summary of significant accounting policies (continued)

3.5 Impairment of non-financial assets (continued)

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

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

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

3.6 Provisions

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

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

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

3.7 Financial instruments

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

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

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

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

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

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

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

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

3.7.1 Financial assets

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

(i) Classification of financial assets

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

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

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

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

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Classification and subsequent measurement of financial assets depend on:

i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
ii. the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (‘SPPP’), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 17. Profit income from these financial assets is included in “Income from Islamic financing products measured at amortised cost” using the effective profit rate method.

- Fair value through other comprehensive income (FVTOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets’ cash flows represent solely payments of principal and profit, and that are not designated at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, profit income and foreign exchange gains and losses on the instruments’ amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in ‘Net Investment Income’.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss and other comprehensive income within ‘Net investment income’ in the period in which it arises, unless it arises from financial assets that were designated at fair value or which are not held for trading, in which case they are presented separately in the statement of profit or loss and other comprehensive income.

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.1 Financial assets (continued)

(i) Classification of financial assets (continued)

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

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

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

Equity instruments:

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

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

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.1 Financial assets (continued)

(ii) Measurement methods

Amortised cost and effective profit rate

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

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

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

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

(iii) Impairment of financial assets

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

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

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

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.1 Financial assets (continued)

(iv) Modification of financing facilities

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

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

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

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

(v) Derecognition other than on a modification

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

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

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.1 Financial assets (continued)

(v) Derecognition other than on a modification (continued)

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

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

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

3.7.2 Financial liabilities

(i) Classification and subsequent measurement

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

(ii) Derecognition

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

3 Summary of significant accounting policies (continued)

3.7.3 Foreign exchange gains and losses

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

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

3.8 Offsetting of financial assets and liabilities

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

3.9 Islamic financing products

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

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

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

3 Summary of significant accounting policies (continued)

3.9 Islamic financing products (continued)

Ijarah

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

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

Wakalah

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

(ii) Accounting policy

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

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

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

(iii) Revenue recognition policy

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

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

3 Summary of significant accounting policies (continued)

3.9 Islamic financing products (continued)

(iii) Revenue recognition policy (continued)

Murabaha

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

Ijarah

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

Wakalah

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

3.10 Non-current assets held for sale

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

3.11 Cash and cash equivalents

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

4 Critical accounting judgments and key sources of estimation uncertainty

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

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

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

4.1 Measurement of the expected credit loss allowance

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

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

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

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

4.2 Fair valuation of properties

The Company values its properties at fair value on the basis of market valuations prepared by independent property consultants. The valuations are based on assumptions which are mainly based on market conditions existing at each reporting date. Therefore, any future change in the market conditions could have an impact on the fair value.

5 Cash and cash equivalents

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

	2021 AED'000	2020 AED'000
Cash at banks:		
Current accounts (Note 9)	**1,418**	1,267
Balances with central bank:		
Certificate of deposit	**50,000**	50,000
	51,418	51,267

As at 31 December 2021 and 2020, the balances with bank in current accounts are profit free and repayable on demand.

Certificate of deposit held with the UAE Central Bank is at an average profit rate of 0.20% (31 December 2020: 0.10%) per annum.

6 Islamic financing products measured at amortised cost

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

	2021 AED'000	2020 AED'000
Financing		
Murabaha	**17,917**	37,668
Ijarah	**1,200,884**	1,156,012
	1,218,801	1,193,680
Less: Unearned income	**(5,337)**	(9,079)
Allowance for impairment	**(48,511)**	(59,356)
	1,164,954	1,125,245

6 Islamic financing products measured at amortised cost (continued)

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

(c) Allowance for impairment movement:

	2021 AED'000	2020 AED'000
At 1 January	**59,356**	44,998
(Reversal)/ charge during the year	**(9,913)**	10,612
(Reversal)/ profit in suspense	**(932)**	3,746
At 31 December	**48,511**	59,356

(d) In certain cases, the Company continues to carry certain classified doubtful financing and delinquent accounts on its books which have been fully provided. Profit is accrued on most of these accounts for litigation purposes only. As at 31 December 2021 and 2020, legal proceedings are pursued for some of these accounts by the Company in the normal course of business.

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

7 Other assets

	2021 AED'000	2020 AED'000
Properties held for sale (note a)	**58,025**	58,025
Profit income receivable certificate of deposits	**20**	4
Takaful income receivable	**155**	44
Prepayments and others	**13**	-
	58,213	58,073

a) In 2019, the Company formalized its intention to sell the properties held for sale which are included in other assets. These properties are carried at AED 58 million as at 31 December 2021 (31 December 2020: AED 58 million) which is lower than the fair value less costs to sell of the properties at 31 December 2021 by AED 73 million (31 December 2020: AED 73 million) in order to comply with regulatory requirements to impair the properties to the extent of 50% as set out in a letter from the UAE Central Bank dated 2 September 2019. The properties are registered in the name of the Parent Company on trust and for the benefit of the Company.

8 Other liabilities

	2021	2020
	AED'000	AED'000
Accrued expenses	**1,327**	1,613
Commission income collected in advance	**1,047**	574
Others	**60**	317
	2,434	2,504

Accrued expenses include AED 1.25 million (2020: AED 1.5 million) for management fee expense payable to the Parent Company (Note 9 and 13).

9 Related party balances and transactions

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

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

	2021	2020
	AED'000	AED'000
Parent Company		
Cash at bank (Note 5)	**1,418**	1,267
Accrued expenses (Note 8)	**1,250**	1,539
Due to Parent Company (Note 9.1)	**455,424**	455,332

Related party transactions for the year are as follows:

	2021	2020
	AED'000	AED'000
Parent Company		
Management fees (Note 13)	**13,750**	17,971

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

9 Related party balances and transactions (continued)

9.1 Due to Parent Company

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

	2021	2020
	AED'000	AED'000
Demand	**242,571**	242,310
Time	**212,853**	212,853
Others	**-**	169
	455,424	455,332

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

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

10 Issued and paid-up share capital

The authorised, issued and fully paid-up capital of the Company comprises of 5,000,000 shares of AED 100 each. As at 31 December 2021 and 2020, share capital is held by the following parties:

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

11 Statutory reserve

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

12 Fees and commission income

	2021 AED'000	2020 AED'000
Takaful related income	**130**	220
Prepayment and settlement income	**750**	421
Processing fees and others	**327**	276
	1,207	917

13 General and administrative expenses

	2021 AED'000	2020 AED'000
Management fees (Note 9)	**13,750**	17,971
Other expenses	**149**	148
	13,899	18,119

14 Allowance for impairment, net

	2021 AED'000	2020 AED'000
Provision on Islamic financing products measured at amortised cost (reversed) / charged during the year	**(9,913)**	10,612
Provision on Islamic financing products measured at amortised cost written off during the year	**4,790**	4,041
Recovery of Islamic financing product measured at amortised cost previously written off	**(1,916)**	(2,043)
	(7,039)	12,610

15 Contingencies

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

16 Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the funding and equity balance. The Company's overall strategy remains unchanged from the year ended 31 December 2020.

17 Risk management

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

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

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

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

17 Risk management (continued)

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

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

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

(a) Credit risk management

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

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

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

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

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

17 Risk management (continued)

(a) Credit risk management (continued)

Expected credit loss measurement

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

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

Significant increase in credit risk (SICR)

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

Quantitative criteria

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

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

Backstop:

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

17 Risk management (continued)

(a) Credit risk management (continued)

Definition of default and credit-impaired assets

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

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

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

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

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

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

17 Risk management (continued)

(a) Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a customer defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of product, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the financing.

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

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

17 Risk management (continued)

(a) Credit risk management (continued)

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

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

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

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

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

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

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

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

17 Risk management (continued)

(a) Credit risk management (continued)

Forward looking information incorporated in the ECL models

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

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

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

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

17 Risk management (continued)

(a) Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

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

	2021				2020			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Cash and cash equivalents								
Investment-grade	**51,418**	**-**	-	**51,418**	51,267	-	-	51,267
Loss allowance	**-**	**-**	**-**		-	-	-	-
Carrying amount	**51,418**	**-**	**-**	**51,418**	51,267	-	-	51,267

17 Risk management (continued)

(a) Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2021				2020			
Islamic financing products measured at amortised cost	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Grading 1	**167**	**408**	**-**	**574**	8,520	3,235	-	11,755
Grading 2	**973,571**	**147,184**	**-**	**1,120,756**	921,773	109,786	-	1,031,559
Grading 3	**-**	**8,704**	**-**	**8,704**	-	13,808	-	13,808
Grading 5	**-**	**-**	**83,430**	**83,430**	-	-	127,479	127,479
	973,738	**156,296**	**83,430**	**1,213,464**	930,293	126,829	127,479	1,184,601
Loss allowance	**(4,872)**	**(9,828)**	**(33,811)**	**(48,511)**	(1,789)	(12,911)	(44,656)	(59,356)
Carrying amount	**968,866**	**146,468**	**49,620**	**1,164,954**	928,504	113,918	82,823	1,125,245

17 Risk management (continued)

(a) Credit risk management (continued)

Risk management in the current economic scenario

Economic fallout from COVID-19 crisis continues to be significant and rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact.

While the Company continues to closely monitor the situation and work closely with clients to work through any residual elements of COVID-19 related stresses, it is management's view that economic risks associated with the pandemic are moderating. A majority of customer who had previously availed deferral schemes from the Company have now resumed repayment. The proportion of customers utilizing the deferral schemes have declined over the past six to nine months.

The Company also continues to manage specific credit concerns resulting from the crisis, particularly for clients within directly impacted sectors. Overall, the Company continues to apply sound judgement in managing any residual COVID-19 impact on its clients' cash flows and credit worthiness.

COVID-19 impact on measurement of ECL

The Company has robust governance in place to ensure appropriateness of the IFRS 9 framework and resultant Expected Credit Loss ("ECL") estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by the Group ERC and the IFRS 9 Forum ("the Forum"). The Forum is chaired by the Head of Enterprise Risk Management with participation from business, finance, credit and risk management departments. The Company, through the Forum, reviews the appropriateness of inputs and methodology for ECL on an ongoing basis.

In recognition of significant economic uncertainty due to the COVID-19 crisis and the associated challenge with applying IFRS 9 principles and requirements under these circumstances, CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") jointly issued a guidance note to Banks and Finance companies ("Joint Guidance") in UAE on 15 April 2020 relating to estimation of IFRS 9 ECL provisions in context of the COVID-19 crisis. In addition, an addendum to the Joint Guidance was issued on 27 October 2020. The Company has taken into consideration provisions of the Joint Guidance and the addendum in all areas of the IFRS 9 framework and in estimating ECL for the year.

17 Risk management (continued)

(a) Credit risk management (continued)

Risk management in the current economic scenario (continued)

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

The outcome of the review is as follows:

(i) Classification of clients benefitting from payment deferrals into two groups; (a) Group 1: clients those are temporarily and mildly impacted; and (b) Group 2: clients that are significantly impacted and could see potential stage migrations; and

(ii) Revision to IFRS 9 model inputs pertaining to macroeconomic forecasts.

Grouping of clients has been carried out based on an assessment of SICR for clients benefiting from payment deferrals. The Company has applied knowledge of its clients and judgement in assessing SICR and whether the impact of COVID-19 is temporary or long term. Specifically, clients that are expected to face liquidity constraints without substantial changes in their credit worthiness have been classified in Group 1. For these clients, the Company holds the view that, despite being subject to payment deferrals, there is insufficient deterioration in credit quality to trigger a stage migration. On the other hand, clients that are expected to face substantial changes in their creditworthiness beyond liquidity issues have been classified as Group 2. Ultimately grouping of borrowers assists in determining whether a stage migration is warranted.

17 Risk management (continued)

(a) Credit risk management (continued)

Risk management in the current economic scenario (continued)

As at 31 December 2021, the proportion of clients benefitting from deferrals along with their exposures and ECL is as follows:

		Group 1		Group 2	
Sector	Total gross carrying amount	Gross carrying amount	ECL	Gross carrying amount	ECL
		AED (in million)			
Murabaha	**13**	**7**	**-**	**1**	**-**
Ijarah	**1,201**	**250**	**-**	**77**	**1**
	1,213	**257**	**-**	**78**	**1**

The Company has deferred payments for customers in line with the economic relief program announced. Due to the payment deferrals, the contractual cash flows from these credit exposures (gross carrying amount of AED 257 million) have been modified and in accordance with IFRS 9 requirements the Company has recognized a modification loss of AED 12 million, which is included as part of the ECL.

The summary of customers benefiting from deferrals is as follows:

Stage	Group	Number of clients deferred	Payment deferrals	Exposure	Impairment allowance
			AED (in million)		
Stage 1	**Group 1**	**156**	**7**	**256**	**1**
	Group 2	**-**	**-**	**-**	**-**
		156	**7**	**256**	**1**
Stage 2	**Group 1**	**1**	**1**	**1**	**-**
	Group 2	**79**	**4**	**78**	**1**
		80	**5**	**79**	**1**
	Total	**236**	**12**	**335**	**2**

17 Risk management (continued)

(a) Credit risk management (continued)

Risk management in the current economic scenario (continued)

Reasonableness of ECL estimates under COVID-19 crisis

The Company performs historical analysis to determine key economic variables that impact credit risk across the portfolio. Macroeconomic forecasts for these economic variables are used to estimate risk parameters on a forward-looking basis for all borrowers and instruments that are in scope of IFRS 9 ECL framework.

Collateral and other credit enhancements

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

The Company closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Company will take possession of the collateral to mitigate potential credit losses. The Company holds collateral against its Islamic financing products, the fair value of which as at 31 December 2021 is AED 1,173 million (2020: AED 1,506 million).

17 Risk management (continued)

(a) Credit risk management (continued)

Gross carrying amount

The following table further explains the changes in the gross carrying amount from 1 January to 31 December 2021:

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and cash equivalents								
Gross carrying amount as at 1 January	**51,267**	**-**	**-**	**51,267**	1,267	-	-	1,267
New financial assets originated	**151**	**-**	**-**	**151**	50,000	-	-	50,000
Gross carrying amount as at 31 December	**51,418**	**-**	**-**	**51,418**	51,267	-	-	51,267

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

Notes to the financial statements for the year ended 31 December 2021 (continued)

17 Risk management (continued)

(a) Credit risk management (continued)

Gross carrying amount (continued)

Islamic financing products measured at amortised cost	**2021** Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	**2020** Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Gross carrying amount as at 1 January	**930,293**	**126,829**	**127,479**	**1,184,601**	1,009,310	136,151	92,268	1,237,729
Transfers								
Transfer from Stage 1 to Stage 2	**(43,215)**	**43,215**	**-**	**-**	(80,414)	80,414	-	-
Transfer from Stage 1 to Stage 3	**(423)**	**-**	**423**	**-**	(14,862)	-	14,862	-
Transfer from Stage 2 to Stage 1	**1,926**	**(1,926)**	**-**	**-**	10,679	(10,679)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(9,486)**	**9,486**	**-**	-	(65,008)	65,008	-
New financial assets originated	**319,424**	**11,328**	**-**	**330,752**	124,846	549	-	125,395
Repayments and other movements	**(234,267)**	**(13,664)**	**(53,958)**	**(301,889)**	(119,266)	(14,598)	(44,659)	(178,523)
Gross carrying amount as at 31 December	**973,738**	**156,296**	**83,430**	**1,213,464**	930,293	126,829	127,479	1,184,601

17 Risk management (continued)

(a) Credit risk management (continued)

Loss allowance

The following table explain the changes in the loss allowance from 1 January 2021 to 31 December 2021:

	2021				2020			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing products measured at amortised cost								
Loss allowance as at 1 January	**1,788**	**12,911**	**44,657**	**59,356**	8,826	5,874	30,298	44,998
Transfers								
Transfer from Stage 1 to Stage 2	**(511)**	**511**	**-**	**-**	(793)	793	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(107)	-	107	-
Transfer from Stage 2 to Stage 1	**2**	**(2)**	**-**	**-**	6	(6)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(419)**	**419**	**-**	-	(4,179)	4,179	-
New financial assets originated	**164**	**3**	**-**	**167**	5	2	-	7
Changes in PDs/LGDs/EADs	**3,429**	**(3,176)**	**(11,265)**	**(11,012)**	(6,148)	10,427	10,072	14,351
Loss allowance as at 31 December	**4,872**	**9,828**	**33,811**	**48,511**	1,789	12,911	44,656	59,356

17 Risk management (continued)

(a) Credit risk management (continued)

Write-off policy

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

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

(b) Liquidity risk management

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

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

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

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

17 Risk management (continued)

(b) Liquidity risk management (continued)

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

Maturity profile:
The maturity profile of assets, liabilities and equity as at 31 December 2021 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and cash equivalents	51,418	-	-	-	-	51,418
Islamic financing products measured at amortised cost	49,130	16,821	33,755	262,963	802,285	1,164,954
Other assets	177	-	11	58,025	-	58,213
Total assets	**100,725**	**16,821**	**33,766**	**320,988**	**802,285**	**1,274,585**
Liabilities and equity						
Due to Parent Company	455,424	-	-	-	-	455,424
Other liabilities	2,433	-	-	-	-	2,433
Equity	-	-	-	-	816,728	816,728
Total liabilities and equity	**457,857**	**-**	**-**	**-**	**816,728**	**1,274,585**

17 Risk management (continued)

(b) Liquidity risk management (continued)

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2020 were as follows:

	Within 3 months AED'000	**Over 3 to 6 months AED'000**	**Over 6 to 12 months AED'000**	**Over 1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Assets						
Cash and cash equivalents	51,267	-	-	-	-	51,267
Islamic financing products measured at amortised cost	56,968	18,733	34,560	252,563	762,421	1,125,245
Other assets	48	-	-	58,025	-	58,073
Total assets	108,283	18,733	34,560	310,588	762,421	1,234,585
Liabilities and equity						
Due to Parent Company	455,332	-	-	-	-	455,332
Other liabilities	2,504	-	-	-	-	2,504
Equity	-	-	-	-	776,749	776,749
Total liabilities and equity	457,836	-	-	-	776,749	1,234,585

17 Risk management (continued)

(c) Market risk management

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

Currency risk

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

Rate of return risk

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

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

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

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

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

17 Risk management (continued)

(c) Market risk management (continued)

Fair value of financial instruments (continued)

During the year ended 31 December 2021 and 2020, the Company has no financial assets that are measured at fair value.

(d) Operational risk management

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

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

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

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

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

17 Risk management (continued)

(d) Operational risk management (continued)

Operational risk monitoring

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

18 Calculation of Zakat

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

For the year ended 31 December 2021, Zakat for the Company has been calculated as Nil for each share of the Company.

19 Classification of financial assets and liabilities

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2021:

	Amortised cost AED'000	Carrying amount AED'000
Financial assets		
Cash and cash equivalents	**51,418**	**51,418**
Islamic financing products measured at amortised cost	**1,164,954**	**1,164,954**
Other assets	**188**	**188**
	1,216,560	**1,216,560**

	Amortised cost AED'000	Carrying amount AED'000
Financial liabilities		
Due to Parent Company	**455,424**	**455,424**
Other liabilities	**1,387**	**1,387**
	456,811	**456,811**

19 Classification of financial assets and liabilities (continued)

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 2020:

	Amortised cost AED'000	Carrying amount AED'000
Financial assets		
Cash and cash equivalents	51,267	51,267
Islamic financing products measured at amortised cost	1,125,245	1,125,245
Other assets	48	48
	1,176,560	1,176,560

	Amortised cost AED'000	Carrying amount AED'000
Financial liabilities		
Due to Parent Company	455,332	455,332
Other liabilities	1,929	1,929
	457,261	457,261

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

20 Investment in equity instruments

During the year ended 31 December 2021 and 2020, the Company neither purchased nor disposed any of the equity shares. Further, as at 31 December 2021, the Company does not hold any equity shares.

21 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the financial statements as at and for the year ended 31 December 2021.

22 Approval of financial statements

The financial statements for the year ended 31 December 2021 were approved by the Board of Directors and authorized for issue on 31 March 2022.