

# **Al Ain Finance PJSC**

## **BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2021**

**Al Ain Finance PJSC**  
**BOARD OF DIRECTORS' REPORT**  
**31 DECEMBER 2021**

## Al Ain Finance PJSC

### BOARD OF DIRECTORS' REPORT

For the year ended 31 December 2021

The Board of Directors is pleased to present its report and the audited financial statements of Al Ain Finance PJSC (the "Company") for the year ended 31 December 2021.

#### **Principal activities**

The principal activities of the Company are to perform financing business and activities according to the Decretal Federal Law No. (14) of 2018 regarding the Central Bank and organization of Financial Institution and Activities, and the regulation of finance companies, as per Central Bank Circular No. 112/2018 dated 24 April 2018. The Company is specialized in working capital finance to target Small and Medium Sized Enterprise (SME) by offering them range of receivables and supply chain finance solutions such as factoring, invoice discounting etc.

#### **Results:**

During the year, the Company has recognised operating income of AED 17,482,579 (2020: AED 5,893,941) with a profit of AED 5,675,717 (2020: loss of AED 45,469).

#### **Directors:**

As the end of reporting period, the Board of Directors comprises:

|                               |   |          |
|-------------------------------|---|----------|
| Mr. Mohamed Rashed Alketbi    | - | Chairman |
| Mr. Abdul Aziz Rashed Alketbi | - | Member   |
| Mr. Mansour Saeed Alketbi     | - | Member   |
| Mr. Ehab Abdul Latif Ahmed    | - | Member   |
| Mr. Mohammad Barraaj          | - | Member   |

#### **Release**

The Directors release the management and the external auditors in connection with their duties for the year ended 31 December 2021.

#### **Auditors**

The Directors propose the re-appointment of Ernst and Young as the auditors of the Company for the year ending 31 December 2022.

On behalf of Board of Directors



Mohamed Rashed Alketbi  
Chairman

Date: May 11, 2022

P O Box 40283  
Abu Dhabi  
United Arab Emirates

# **Al Ain Finance PJSC**

## **FINANCIAL STATEMENTS**

**31 DECEMBER 2021**



Ernst & Young Middle East  
(Abu Dhabi Branch)  
P.O. Box 136  
27<sup>th</sup> Floor, Nation Tower 2  
Abu Dhabi Corniche  
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400  
Fax: +971 2 627 3383  
abudhabi@ae.ey.com  
ey.com

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF AL AIN FINANCE PJSC

#### Report on the Audit of the Financial Statements

##### *Opinion*

We have audited the financial statements of Al Ain Finance PJSC (the "Company"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

##### *Basis for opinion*

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

##### *Responsibilities of management and the Board of Directors for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015 (as amended), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF AL AIN FINANCE PJSC continued

#### Report on the Audit of the Financial Statements continued

##### *Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure is 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 the Board of Directors 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.

## **INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF AL AIN FINANCE PJSC** continued

### **Report on Other Legal and Regulatory Requirements**

Further, as required by the UAE Federal Law No. (2) of 2015 (as amended), we report that for the year ended 31 December 2021:

- i) the Company has maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015 (as amended);
- iv) the financial information included in the Board of Directors' report is consistent with the books of account of the Company;
- v) based on the information that has been made available to us, the Company has not purchased or invested in any shares or stocks during the financial year ended 31 December 2021;
- vi) note 13 reflects 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 have a material impact on its activities or its financial position as at 31 December 2021.



Signed by  
Mohammad Mobin Khan  
Partner  
Ernst & Young  
Registration No. 532

11 May 2022  
Abu Dhabi

# Al Ain Finance PJSC

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

|   | <i>Notes</i> | <b>2021</b><br><b>AED</b> | <b>2020</b><br><b>AED</b> |
|---|--------------|---------------------------|---------------------------|
| Interest income on loans and advances                                       |              | <b>11,822,519</b>         | 3,481,218                 |
| Income on bank deposits   |              | <u><b>118,117</b></u>     | <u>916,009</u>            |
| Net interest income   |              | <b>11,940,636</b>         | 4,397,227                 |
| Fee and commission income   |              | <u><b>5,541,943</b></u>   | <u>1,496,714</u>          |
| <b>OPERATING INCOME</b>   |              | <b>17,482,579</b>         | 5,893,941                 |
| General and administrative expenses   | 3            | <b>(7,915,380)</b>        | (5,969,660)               |
| Provision for impairment of loans and advances                              | 5            | <b>(3,893,735)</b>        | 27,000                    |
| Other income  |              | <u><b>2,253</b></u>       | <u>3,250</u>              |
| <b>PROFIT (LOSS) AND TOTAL COMPREHENSIVE<br/>INCOME (LOSS) FOR THE YEAR</b> |              | <u><b>5,675,717</b></u>   | <u>(45,469)</u>           |

The attached notes 1 to 17 form part of these financial statements.



# Al Ain Finance PJSC

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

|   | Notes | 2021<br>AED               | 2020<br>AED               |
|---|-------|---------------------------|---------------------------|
| <b>ASSETS</b>                                     |       |                           |                           |
| Cash and bank balances                            | 4     | 15,995,213                | 61,971,721                |
| Loans and advances, net                           | 5     | 142,137,972               | 36,650,289                |
| Prepayments and other receivables                 | 6     | 1,349,492                 | 1,338,071                 |
| Furniture, fixtures and office equipment          | 7     | 149,799                   | 143,099                   |
| Intangible assets                                 | 8     | -                         | 3,533                     |
| <b>TOTAL ASSETS</b>                               |       | <b><u>159,632,476</u></b> | <b><u>100,106,713</u></b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |       |                           |                           |
| <b>Liabilities</b>                                |       |                           |                           |
| Due to a related party                            | 13    | 1,414,683                 | 1,414,683                 |
| Other payables                                    | 9     | 7,026,096                 | 3,181,896                 |
| Provision for employees' end of service benefits  | 10    | 92,622                    | 86,776                    |
| <b>Total liabilities</b>                          |       | <b><u>8,533,401</u></b>   | <b><u>4,683,355</u></b>   |
| <b>Shareholders' equity</b>                       |       |                           |                           |
| Share capital                                     | 11    | 150,000,000               | 100,000,000               |
| Statutory reserve                                 | 12    | 567,572                   | -                         |
| Accumulated losses                                |       | (1,031,163)               | (4,785,522)               |
| Impairment reserve                                | 16    | 1,562,666                 | 208,880                   |
| <b>Total shareholders' equity</b>                 |       | <b><u>151,099,075</u></b> | <b><u>95,423,358</u></b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b><u>159,632,476</u></b> | <b><u>100,106,713</u></b> |

  
 Mohamed Rashed Alketbi  
 Chairman

  
 Abdul Aziz Al Shareef  
 Chief Executive Officer

  
 Sudhir Rajpopat  
 Finance Manager

The attached notes 1 to 17 form part of these financial statements.

# Al Ain Finance PJSC

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

|   | <i>Share<br/>capital<br/>AED</i> | <i>Capital<br/>contribution<br/>AED</i> | <i>Statutory<br/>reserve<br/>AED</i> | <i>Accumulated<br/>losses<br/>AED</i> | <i>Impairment<br/>reserve<br/>AED</i> | <i>Total<br/>equity<br/>AED</i> |
|---|----------------------------------|---|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| At 1 January 2020                                     | 50,000,000                       | 50,000,000                              | -                                    | (4,699,350)                           | 168,177                               | 95,468,827                      |
| Transfer to share capital                             | 50,000,000                       | (50,000,000)                            | -                                    | -                                     | -                                     | -                               |
| Loss and<br>total comprehensive loss for the year     | -                                | -                                       | -                                    | (45,469)                              | -                                     | (45,469)                        |
| Transfer to impairment reserve                        | -                                | -                                       | -                                    | (40,703)                              | 40,703                                | -                               |
| <b>Balance at 31 December 2020</b>                    | <b><u>100,000,000</u></b>        | <b><u>-</u></b>                         | <b><u>-</u></b>                      | <b><u>(4,785,522)</u></b>             | <b><u>208,880</u></b>                 | <b><u>95,423,358</u></b>        |
| At 1 January 2021                                     | 100,000,000                      | -                                       | -                                    | (4,785,522)                           | 208,880                               | 95,423,358                      |
| Additional share capital<br>during the year (note 11) | 50,000,000                       | -                                       | -                                    | -                                     | -                                     | 50,000,000                      |
| Profit and<br>total comprehensive income for the year | -                                | -                                       | -                                    | 5,675,717                             | -                                     | 5,675,717                       |
| Transfer to statutory reserve                         | -                                | -                                       | 567,572                              | (567,572)                             | -                                     | -                               |
| Transfer to impairment<br>reserve (note 16)           | -                                | -                                       | -                                    | (1,353,786)                           | 1,353,786                             | -                               |
| <b>Balance at 31 December 2021</b>                    | <b><u>150,000,000</u></b>        | <b><u>-</u></b>                         | <b><u>567,572</u></b>                | <b><u>(1,031,163)</u></b>             | <b><u>1,562,666</u></b>               | <b><u>151,099,075</u></b>       |

The attached notes 1 to 17 form part of these financial statements.

# Al Ain Finance PJSC

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

|  | <i>Notes</i> | <b>2021</b><br><b>AED</b>  | <b>2020</b><br><b>AED</b>  |
|--|--------------|----------------------------|----------------------------|
| <b>OPERATING ACTIVITIES</b>                        |              |                            |                            |
| Profit (loss) for the year                         |              | <b>5,675,717</b>           | <b>(45,469)</b>            |
| Adjustments for:                                   |              |                            |                            |
| Depreciation                                       | 7            | <b>72,049</b>              | 78,013                     |
| Amortisation                                       | 8            | <b>3,533</b>               | 10,332                     |
| Provision for employees' end of service benefits   | 10           | <b>34,576</b>              | 60,837                     |
| Provision for impairment of loans and advances     | 5            | <b>3,893,735</b>           | (27,000)                   |
| Interest income on bank deposit                    |              | <u><b>(118,117)</b></u>    | <u><b>(916,009)</b></u>    |
|  |              | <b>9,561,493</b>           | <b>(839,296)</b>           |
| Working capital adjustments:                       |              |                            |                            |
| Loans and advances, net                            |              | <b>(109,381,418)</b>       | 11,016,403                 |
| Prepayments and other receivables                  |              | <b>(74,677)</b>            | (1,124,094)                |
| Other payables                                     |              | <u><b>3,844,200</b></u>    | <u><b>1,316,969</b></u>    |
| Cash flows (used in) from operations               |              | <b>(96,050,402)</b>        | 10,369,982                 |
| Employees end of service benefits paid             | 10           | <u><b>(28,730)</b></u>     | <u><b>(37,102)</b></u>     |
| Net cash flows (used in) from operating activities |              | <u><b>(96,079,132)</b></u> | <u><b>10,332,880</b></u>   |
| <b>INVESTING ACTIVITIES</b>                        |              |                            |                            |
| Bank deposits with maturities over 3 months        |              | <b>35,000,000</b>          | (35,000,000)               |
| Interest income received on bank deposit           |              | <b>181,373</b>             | 901,859                    |
| Purchase of property and equipment                 | 7            | <u><b>(78,749)</b></u>     | <u><b>(96,958)</b></u>     |
| Net cash flows from (used in) investing activities |              | <u><b>35,102,624</b></u>   | <u><b>(34,195,099)</b></u> |
| <b>FINANCING ACTIVITY</b>                          |              |                            |                            |
| Proceeds from additional share capital             | 11           | <u><b>50,000,000</b></u>   | <u><b>-</b></u>            |
| Net cash flows from financing activity             |              | <u><b>50,000,000</b></u>   | <u><b>-</b></u>            |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   |              | <b>(10,976,508)</b>        | <b>(23,862,219)</b>        |
| Cash and cash equivalents at beginning of the year |              | <u><b>26,971,721</b></u>   | <u><b>50,833,940</b></u>   |
| <b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>    | 4            | <u><b>15,995,213</b></u>   | <u><b>26,971,721</b></u>   |

The attached notes 1 to 17 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

### 1 ACTIVITIES

Al Ain Finance PJSC (the “Company”) is a private joint stock company registered and incorporated in the Emirate of Abu Dhabi, United Arab Emirates in accordance with the provisions of the applicable UAE law for Commercial Companies, the U.A.E. Central Bank, the Monetary System and Organisation of Banking Law No. (10) of 1980 and under authority of resolutions of the Board of Directors of the U.A.E. Central Bank relating to Finance Companies.

The Company was incorporated on 13 November 2016 and commenced operations on 15 March 2017.

The principal activities of the Company are to perform financing business and activities according to the decision issued by the Central Bank No. (58/3/96) on finance companies. The Company is specialized in working capital finance to target Small and Medium Sized Enterprise (SME) by offering them range of receivables and supply chain finance solutions such as factoring, invoice discounting, overdraft facility, term loans etc.

The registered office of the Company is at P O Box 40283, Abu Dhabi, United Arab Emirates (UAE).

The financial statements were authorized for issue by the Board of Directors on 11 May 2022.

### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) and the applicable requirements of the UAE Federal Law No. (2) of 2015 (as amended). Federal Law by Decree No 32 of 2021, which repeals and replaces Federal Law No. 2 of 2015 (as amended) on Commercial Companies, was issued on 20 September 2021, and is effective from 2 January 2022. The Company is in the process of reviewing the new law and will apply the requirements thereof no later than one year from the date on which the new Decree Law came into effect.

The financial statements have been prepared on a historical cost convention.

The financial statements have been presented in United Arab Emirates Dirham (“AED”), which is the functional currency of the Company.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### **New and amended standards and interpretations**

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. Although these new standards and amendments are applied for the first time during the period, the application of these new standards and amendments, did not have a material impact on the annual financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

- Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments include the following practical expedients:
  - A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
  - Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
  - Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.
- Amendments to IFRS 16: Covid-19 Related Rent Concessions beyond 30 June 2021.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**2.3 FUTURE CHANGES IN ACCOUNTING POLICIES – STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

- IFRS 17 Insurance Contracts;
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter;
- IFRS 9 Financial Instruments - Fees in the '10 percent' test for derecognition of financial liabilities;
- IAS 41 Agriculture - Taxation in fair value measurements;
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Amendments to IFRS 3: Reference to the Conceptual Framework;
- Amendments to IAS 16: Property, Plant and Equipment - Proceeds before Intended Use;
- Amendments to IAS 37: Onerous Contracts - Costs of Fulfilling a Contract;
- Amendments to IAS 8: Definition of Accounting Estimates; and
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies.

The Company intends to adopt these standards, if applicable, when they become effective. Company is in the process of assessing the impact of these new standards and amendments on its financial statements.

**2.4 SIGNIFICANT ACCOUNTING POLICIES**

**Income from fixed deposits and loans and advances**

For all financial instruments measured at amortised cost and interest-bearing financial instruments, income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised.

**Fee and commission income**

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income are recognized when earned by the Company.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Classification of financial assets and liabilities*

All financial assets under the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Company's business model for managing the financial assets and contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost, if both the following conditions are met:

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

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**2.4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

*Classification of financial assets and liabilities* continued

A financial asset is measured at fair value through other comprehensive income, if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Company may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

*Business model assessment*

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition and its related interest which is recognised using the effective interest rate method.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rate.

The Company has classified cash and bank balances and loans and advances, net and certain other assets as financial assets at amortised cost.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**2.4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

*Financial liabilities*

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

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

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

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

*Reclassification of financial assets and financial liabilities*

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

*Initial measurement*

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

*Subsequent measurement of financial assets*

After initial recognition, an entity shall measure a financial asset in accordance with its classification at:

- amortised cost less impairment;
- fair value through other comprehensive income less impairment; or
- fair value through profit or loss.

Impairment is assessed on the financial assets measured at amortised cost and at fair value through other comprehensive income as disclosed below.

*Derecognition of financial assets and liabilities*

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**2.4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Offsetting**

Financial assets and financial liabilities are offset when the Company has a legally enforceable right to set off the recognised amounts and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Impairment of financial assets**

*Impairment assessment:*

Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

*Measurement of expected credit losses (ECL):*

The impairment of financial assets is calculated in accordance with IFRS 9 expected credit loss ("ECL") model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Company measure loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and short-term deposits with original maturity of three months or less.

**Furniture, fixtures and office equipment**

Furniture, fixtures and office equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

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

|                            |         |
|----------------------------|---------|
| Furniture and fixtures     | 4 years |
| Office and other equipment | 4 years |

The carrying values of furniture, fixtures and office equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

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



NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**2.4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged on a straight line basis over their estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with effect of any changes in estimate being accounted for on a prospective basis. Intangible assets mainly include computer software with an estimated useful life of 4 years. Software licenses are amortised over the period of validity of the license.

**Customers' deposits**

Customers' deposits are carried at amortised cost less amounts repaid.

**Impairment of non-financial assets**

The Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

**Employees' end of service benefits**

The Company provides end of service benefits for its employees. The entitlement to these benefits is usually based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are usually accrued over the period of employment.

**Provisions**

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

**Foreign currencies**

The Company's financial statements are presented in AED, which is its functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

**Fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**2.4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Fair values** continued

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

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

**2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the company's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

**Business model assessment**

The business model reflects how the Company manages financial assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the financial assets or is to collect both the contractual cash flows and cash flows arising from the sale of financial assets. Factors considered by the Company in determining the business model for a group of financial assets include past experience on how the cash flows for these financial assets were collected, how the financial asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. The Company's business model for the loan book is to hold to collect contractual cash flows.

**Significant increase of credit risk**

ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative forward-looking information.

**Establishing groups of assets with similar credit risk characteristics**

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Company monitors the appropriateness of the credit risk characteristics on a timely basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECL, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differ.

**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 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 ECL are provided in note 15.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES** continued

**Measurement of the expected credit loss allowance** continued

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

- Determining criteria for significant increase in credit risk;
- 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.

*Key sources of estimation uncertainty*

The following are key estimations that the management has used in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

*a) Forward-looking scenarios*

When measuring ECL the Company uses forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

*b) Probability of default (PD)*

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future economic conditions.

*c) Loss Given Default (LGD)*

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

**Impairment of property and equipment and intangible assets**

The Company determines at each reporting date whether there is any objective evidence that the property and equipment and intangible assets are impaired. The carrying values of property and equipment and intangible assets are reviewed for impairment when events or changes in the circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and value in use.

**3 GENERAL AND ADMINISTRATIVE EXPENSES**

|   | <i>2021</i>      | <i>2020</i>      |
|---|------------------|------------------|
|   | <i>AED</i>       | <i>AED</i>       |
| Staff costs                                 | 5,225,817        | 4,596,232        |
| Professional charges                        | 151,988          | 80,125           |
| Legal charges                               | 109,752          | 60,879           |
| Software services fees                      | 1,571,336        | 182,042          |
| Bank charges                                | 43,330           | 187,794          |
| Office rent                                 | 195,165          | 232,247          |
| Depreciation and amortisation (notes 7 & 8) | 75,582           | 88,345           |
| Marketing expenses                          | 41,590           | -                |
| Communication expenses                      | 149,885          | 133,265          |
| Director's fees                             | 184,600          | -                |
| Others                                      | 166,335          | 408,731          |
|   | <u>7,915,380</u> | <u>5,969,660</u> |

# Al Ain Finance PJSC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

### 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows consist of the following statement of financial position amounts:

|   | <i>2021</i><br><i>AED</i> | <i>2020</i><br><i>AED</i> |
|---|---------------------------|---------------------------|
| Cash in hand  | 3,329                     | 1,633                     |
| Current accounts with banks                                     | 15,741,884                | 15,720,088                |
| Fixed deposits with banks*                                      | <u>250,000</u>            | <u>46,250,000</u>         |
| Cash and bank balances as at 31 December                        | 15,995,213                | 61,971,721                |
| Less: fixed deposits with original maturities over three months | <u>-</u>                  | <u>(35,000,000)</u>       |
| Cash and cash equivalents (for cash flows)                      | <u>15,995,213</u>         | <u>26,971,721</u>         |

\*Fixed deposits represent term deposits held with local bank. These deposits carry profit of 0.65% per year (2020:1.23% to 1.9%).

### 5 LOANS AND ADVANCES, NET

|  | <i>2021</i><br><i>AED</i> | <i>2020</i><br><i>AED</i> |
|--|---------------------------|---------------------------|
| Invoice discounting                        | 43,230,858                | 22,093,257                |
| Factoring with recourse                    | 2,024,662                 | 3,514,001                 |
| Term loans                                 | 65,540,143                | 11,752,233                |
| Overdrafts                                 | <u>35,945,246</u>         | <u>-</u>                  |
| Loans and advances                         | 146,740,909               | 37,359,491                |
| Less: provision for expected credit losses | <u>(4,602,937)</u>        | <u>(709,202)</u>          |
|  | <u>142,137,972</u>        | <u>36,650,289</u>         |

Movement in provision for expected credit losses:

|   | <i>2021</i><br><i>AED</i> | <i>2020</i><br><i>AED</i> |
|---|---------------------------|---------------------------|
| At 1 January  | 709,202                   | 736,202                   |
| Reversal of provision for expected credit loss for the year (note 16) | -                         | (27,000)                  |
| Impairment charge for the year (note 16)                              | <u>3,893,735</u>          | <u>-</u>                  |
| At 31 December  | <u>4,602,937</u>          | <u>709,202</u>            |

Loans and advances are provided to customers based in the UAE and are denominated in AED.

# Al Ain Finance PJSC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

### 6 PREPAYMENTS AND OTHER RECEIVABLES

|                                      | <i>2021</i><br><i>AED</i> | <i>2020</i><br><i>AED</i> |
|--------------------------------------|---------------------------|---------------------------|
| Interest receivable on bank deposits | -                         | 63,256                    |
| Prepayments and other receivables    | <u>1,349,492</u>          | <u>1,274,815</u>          |
|                                      | <u>1,349,492</u>          | <u>1,338,071</u>          |

### 7 FURNITURE, FIXTURES AND OFFICE EQUIPMENT

|                           | <i>Furniture<br/>and<br/>fixtures<br/>AED</i> | <i>Office and<br/>other<br/>equipment<br/>AED</i> | <i>Total<br/>AED</i> |
|---------------------------|---|---|----------------------|
| <i>2021</i>               |   |   |                      |
| Cost:                     |   |   |                      |
| At 1 January 2021         | 251,025                                       | 232,819   | 483,844              |
| Additions                 | <u>-</u>                                      | <u>78,749</u>                                     | <u>78,749</u>        |
| At 31 December 2021       | <u>251,025</u>                                | <u>311,568</u>                                    | <u>562,593</u>       |
| Accumulated depreciation: |   |   |                      |
| At 1 January 2021         | 178,435                                       | 162,310   | 340,745              |
| Charge for the year       | <u>27,221</u>                                 | <u>44,828</u>                                     | <u>72,049</u>        |
| At 31 December 2021       | <u>205,656</u>                                | <u>207,138</u>                                    | <u>412,794</u>       |
| Net book value:           |   |   |                      |
| At 31 December 2021       | <u>45,369</u>                                 | <u>104,430</u>                                    | <u>149,799</u>       |
| <i>2020</i>               |   |   |                      |
| Cost:                     |   |   |                      |
| At 1 January 2020         | 217,025                                       | 169,861   | 386,886              |
| Additions                 | <u>34,000</u>                                 | <u>62,958</u>                                     | <u>96,958</u>        |
| At 31 December 2020       | <u>251,025</u>                                | <u>232,819</u>                                    | <u>483,844</u>       |
| Accumulated depreciation: |   |   |                      |
| At 1 January 2020         | 147,928                                       | 114,804   | 262,732              |
| Charge for the year       | <u>30,507</u>                                 | <u>47,506</u>                                     | <u>78,013</u>        |
| At 31 December 2020       | <u>178,435</u>                                | <u>162,310</u>                                    | <u>340,745</u>       |
| Net book value:           |   |   |                      |
| At 31 December 2020       | <u>72,590</u>                                 | <u>70,509</u>                                     | <u>143,099</u>       |

# Al Ain Finance PJSC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

### 8 INTANGIBLE ASSETS

|                           | <i>2021</i>     | <i>2020</i>         |
|---------------------------|-----------------|---------------------|
|                           | <i>AED</i>      | <i>AED</i>          |
| Cost:                     |                 |                     |
| At 31 December            | <u>41,317</u>   | <u>41,317</u>       |
| Accumulated amortisation: |                 |                     |
| At 1 January              | 37,784          | 27,452              |
| Charge for the year       | <u>3,533</u>    | <u>10,332</u>       |
| At 31 December            | <u>41,317</u>   | <u>37,784</u>       |
| Net book value:           |                 |                     |
| At 31 December            | <u><u>-</u></u> | <u><u>3,533</u></u> |

### 9 OTHER PAYABLES

|                             | <i>2021</i>             | <i>2020</i>             |
|-----------------------------|-------------------------|-------------------------|
|                             | <i>AED</i>              | <i>AED</i>              |
| Other payables              | 1,217,735               | 164,763                 |
| Deposits held as collateral | 2,676,616               | 2,940,884               |
| Customers' deposits         | 2,342,185               | -                       |
| Accrued expenses            | <u>789,560</u>          | <u>76,249</u>           |
|                             | <u><u>7,026,096</u></u> | <u><u>3,181,896</u></u> |

### 10 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

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

|                          | <i>2021</i>          | <i>2020</i>          |
|--------------------------|----------------------|----------------------|
|                          | <i>AED</i>           | <i>AED</i>           |
| As at 1 January          | 86,776               | 63,041               |
| Provided during the year | 34,576               | 60,837               |
| Payments during the year | <u>(28,730)</u>      | <u>(37,102)</u>      |
| At 31 December           | <u><u>92,622</u></u> | <u><u>86,776</u></u> |

### 11 SHARE CAPITAL

|   | <i>2021</i>               | <i>2020</i>               |
|---|---------------------------|---------------------------|
|   | <i>AED</i>                | <i>AED</i>                |
| <i>Authorised, issued and fully paid</i>  |                           |                           |
| 150,000,000 (2020: 100,000,000) ordinary shares<br>of AED 1 each fully paid in cash | <u><u>150,000,000</u></u> | <u><u>100,000,000</u></u> |

On 21 February 2021, the Company has increased its share capital by AED 50,000,000 after obtaining necessary approval from Ministry of Economy and Central Bank of UAE.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**12 STATUTORY RESERVE**

In accordance with the UAE Federal Law No. 2 of 2015 (as amended), and the UAE Union Law No. 10 of 1980, as amended, 10% of the net profit for the year is transferred to a statutory reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

**13 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties comprise of shareholders and directors of the Company and entities controlled, jointly controlled or significantly influenced by such parties and the key management personnel of the Company.

|  | <b>2021</b>             | <b>2020</b>             |
|--|-------------------------|-------------------------|
|  | <b>AED</b>              | <b>AED</b>              |
| <i>Due to a related party:</i>         |                         |                         |
| SAS International & Investment Co. LLC | <u><b>1,414,683</b></u> | <u><b>1,414,683</b></u> |

The amount due to a related party is interest free, unsecured, and represents advances given in normal course of business.

**Compensation of key management personnel**

The compensation of key management personnel during the year was as follows:

|   | <b>2021</b>             | <b>2020</b>           |
|---|-------------------------|-----------------------|
|   | <b>AED</b>              | <b>AED</b>            |
| Salaries and other short-term employee benefits | <u><b>1,211,360</b></u> | <u><b>880,810</b></u> |

**14 COMMITMENTS**

The Company has the following credit related contingencies and commitments:

|                               | <b>2021</b>             | <b>2020</b>             |
|-------------------------------|-------------------------|-------------------------|
|                               | <b>AED</b>              | <b>AED</b>              |
| <b>Contingent liabilities</b> |                         |                         |
| Letters of guarantee          | <u><b>1,905,312</b></u> | <u><b>1,905,312</b></u> |

**15 CAPITAL MANAGEMENT**

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, is:

- to comply with the capital requirements set by its regulator;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- to maintain a strong capital base to support the development of its business

The objective of the Company's capital management is to ensure that it maintains a healthy capital ratio to support its business and maximise shareholder value. The Company is adhering compliance with minimum capital requirements of CBUAE.

The Central Bank of UAE ('CBUAE') supervises finance companies and sets minimum capital requirements for finance companies.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**16 RISK MANAGEMENT**

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being profit rate risk. The Company has no significant exposure to currency risk as most of the Company's transactions are in UAE Dirham.

**Market risk**

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

*Interest rate risk*

The Company is exposed to interest rate risk on its profit generating/earning assets.

The following table demonstrates the sensitivity of the statement of comprehensive income to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the income is the effect of the assumed changes in interest rates on the Company's income for one year, based on the floating interest rate financial assets and financial liabilities held at 31 December 2021.

|                              | <i>Effect on<br/>profit (loss)</i> |
|------------------------------|------------------------------------|
| <b>2021</b>                  |                                    |
| +100 increase in basis point | <b>1,469,909</b>                   |
| -100 decrease in basis point | <b>(1,469,909)</b>                 |
| <b>2020</b>                  |                                    |
| +100 increase in basis point | 836,095                            |
| -100 decrease in basis point | (836,095)                          |

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures and continually assessing the creditworthiness of customers. In addition to monitoring credit limits, the Company manages the credit exposure relating to its financing activities by entering into collateral arrangements with customers in appropriate circumstances and limiting the duration of exposure.

*Credit risk measurement*

The Company's credit risk is measured in terms of expected credit loss ("ECL"), which is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate.

*ECL measurement*

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As per the IFRS 9 requirements, Company calculates Expected credit loss (ECL) for a facility as a forward-looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility. Expected Loss at any point in time of the life of the facility is calculated using the following formula:



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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**16 RISK MANAGEMENT** continued

**Credit risk**

*Expected Credit Loss (ECL) = PD\*EAD\*LGD*

For each facility Company calculate ECL over two forecast periods:

- 12 Month: ECL is calculated using 12-month forward looking PD, LGD and EAD.
- Lifetime: ECL is calculated using Lifetime forward looking PD, LGD and EAD.

12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

*Stage1:* where no significant increase in credit risk is observed, 12 month Expected Credit Loss (ECL) is recorded as impairment provision;

*Stage2:* where significant increase in credit risk have been observed, Life-time ECL is recorded as impairment provision;

*Stage3:* where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

*Significant increase in credit risk (SICR)*

The stage allocation is determined by identifying a significant increase in credit risk since initial origination. Company assesses when significant increase in credit risk has occurred based on the quantitative and qualitative assessments. When determining whether the risk of default on a financial contract has increased significantly since initial recognition, the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due and risk rating.

*Curing*

Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period, defined by the Company. Similarly, for the movement from Stage 3 to Stage 2, for certain portfolios the Company's policy includes probation periods whereby assets remain in Stage 3 for periods of between six to twelve months. The policy also ensures that none of the asset can move back directly to Stage 1 from Stage 3. There has been no movement from stage 3 to 1 during the current year.

*Measuring ECL- Explanations of input, assumptions and estimation techniques*

As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 months to remaining life of the facility.

The Company calculate Expected credit loss ("ECL") for a facility as a forward-looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date using the effective profit rate and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.

The estimation methodology for three main components, PD, LGD and EAD is explained below:

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

16 RISK MANAGEMENT continued

**Credit risk** continued

*Probability of Default (PD):*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collect performance and default information about its credit risk exposures analysed by credit risk grading for corporate portfolio. The Company employ statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Company has taken exposures.

*Loss Given Default (LGD):*

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, using both internal and external factors. The LGD is estimated using below factors:

*Cure rate:* Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing status.

*Recovery rate:* Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default. This would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

*Discounting rate:* Defined as the opportunity cost of the recovery value not being realised on the day of default adjusted for time value.

*Exposure at Default (EAD):*

The EAD is the amount which bank expects an obligor to owe in the event of default. The EAD depends on the product type:

- For amortizing products, this is based on the contractual repayments over the forecast period.
- For revolving/off-balance products, this is estimated as a combination of current exposure and credit conversion factor applied on the undrawn portion of the limit.

*Forward-looking information incorporated in the ECL model*

As per the IFRS 9 requirements, forward looking economic outlook has also been incorporated in the loss calculations. The Company employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay are used by the management after analysing the portfolio as per the diagnostic tool.

Incorporating forward-looking information increases the level of judgment as to how changes in these macro-economic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

# Al Ain Finance PJSC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

### 16 RISK MANAGEMENT continued

#### Credit risk continued

##### Credit risk monitoring

For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

Risks of the Company's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

##### Collateral management

Collaterals and guarantees are effectively used as mitigating tools by the Company. The quality of collateral is continuously monitored and assessed and the Company seeks to ensure enforceability of the collateral.

Total collateralised loans and advances and guarantees are amounting to AED 18,656,394 and AED 1,905,312 respectively (2020: 11,783,333 and 1,905,312). As at 31 December 2021, the Company is holding collaterals in the form of margin deposits amounting to AED 2,605,312 and mortgaged properties with an estimated fair value of AED 21,490,000 against these facilities (2020: 16,850,000). The Company is also holding deposits amounting to AED 747,883 (2020: AED 1,035,572) against its other facilities.

The Company's exposure to credit risk on these unsecured loans and advances has been analysed in the table below:

|                                | <i>Stage 1</i><br><i>12 months</i><br><i>ECL</i><br><i>AED</i> | <i>Stage 2</i><br><i>lifetime</i><br><i>ECL</i><br><i>not credit</i><br><i>impaired</i><br><i>AED</i> | <i>Stage 3</i><br><i>lifetime</i><br><i>ECL</i><br><i>credit</i><br><i>impaired</i><br><i>AED</i> | <i>Total</i><br><i>AED</i> |
|--------------------------------|--|---|---|----------------------------|
| <b>31 December 2021</b>        |  |   |   |                            |
| Gross amount                   | <u>141,496,777</u>   | -   | <u>5,244,132</u>  | <u>146,740,909</u>         |
| <i>Expected credit losses</i>  |  |   |   |                            |
| Opening balance                | 477,473  | 52,988  | 178,741   | 709,202                    |
| Impairment charge for the year | <u>670,535</u>   | -   | <u>3,223,200</u>  | <u>3,893,735</u>           |
| At 31 December                 | <u>1,148,008</u>   | <u>52,988</u>   | <u>3,401,941</u>  | <u>4,602,937</u>           |
| Net amount                     | <u>140,348,769</u>   | <u>(52,988)</u>   | <u>1,842,191</u>  | <u>142,137,972</u>         |

Loans and advances are secured against the bills and invoices and properties mortgaged against which facilities are provided by the Company.

#### Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

**16 RISK MANAGEMENT** continued**Credit risk** continued*Collateral management* continued**Impairment reserve under the Central Bank of UAE (CBUAE) guidance**

Pursuant to clause 6.4 of the guidance a comparison between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

|   | <b>2021</b>             |
|---|-------------------------|
|   | <b>AED</b>              |
| <b>Impairment reserve: General</b>                              |                         |
| General provisions under Circular 28/2010 of CBUAE              | 2,233,201               |
| Less: Stage 1 and Stage 2 provisions under IFRS 9               | <u>(670,535)</u>        |
| <b>General provision transferred to the impairment reserve</b>  | <u><b>1,562,666</b></u> |
| <b>Impairment reserve: Specific</b>                             |                         |
| Specific provisions under Circular 28/2010 of CBUAE             | 3,233,200               |
| Less: Stage 3 provisions under IFRS 9                           | <u>(3,223,200)</u>      |
| <b>Specific provision transferred to the impairment reserve</b> | <u>-</u>                |
| <b>Total provision transferred to the impairment reserve</b>    | <u><b>1,562,666</b></u> |

As per the guidance note, where provisions under circular 28/10 of the CBUAE exceed provisions under IFRS 9, difference amount is transferred to an impairment reserve within equity as an appropriation from retained earnings. This reserve is not available for dividend distribution.

**Liquidity risk and funding management**

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash.

The maturity profile of financial assets and liabilities is monitored by management to ensure adequate liquidity is maintained. Based on the fact that the Company's source of funding is internal (equity), there is no liquidity risk identified.

# Al Ain Finance PJSC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

### 16 RISK MANAGEMENT continued

#### Liquidity risk and funding management continued

The table below summarises the maturity profile of the discounted cash flows of the Company's assets and liabilities as at 31 December 2021.

|  | <i>Less than<br/>3 months<br/>AED</i> | <i>3 months<br/>to 1 year<br/>AED</i> | <i>Over<br/>1 year<br/>AED</i> | <i>Un-specified<br/>AED</i> | <i>Total<br/>AED</i> |
|--|---------------------------------------|---------------------------------------|--------------------------------|-----------------------------|----------------------|
| <b>2021</b>                                      |                                       |                                       |                                |                             |                      |
| <b>ASSETS</b>                                    |                                       |                                       |                                |                             |                      |
| Cash and bank balances                           | 15,995,213                            | -                                     | -                              | -                           | 15,995,213           |
| Prepayments and other receivables                | 1,349,492                             | -                                     | -                              | -                           | 1,349,492            |
| Loans and advances, net                          | 63,558,721                            | 17,851,903                            | 60,727,348                     | -                           | 142,137,972          |
| Furniture, fixtures and office equipment         | -                                     | -                                     | -                              | 149,799                     | 149,799              |
|  | <u>80,903,426</u>                     | <u>17,851,903</u>                     | <u>60,727,348</u>              | <u>149,799</u>              | <u>159,632,476</u>   |
| <b>LIABILITIES</b>                               |                                       |                                       |                                |                             |                      |
| Due to a related party                           | -                                     | -                                     | 1,414,683                      | -                           | 1,414,683            |
| Other payables                                   | 471,189                               | -                                     | -                              | 6,554,907                   | 7,026,096            |
| Provision for employees' end of service benefits | -                                     | -                                     | -                              | 92,622                      | 92,622               |
| Shareholders' equity                             | -                                     | -                                     | -                              | 151,099,075                 | 151,099,075          |
|  | <u>471,189</u>                        | <u>-</u>                              | <u>1,414,683</u>               | <u>157,746,604</u>          | <u>159,632,476</u>   |
| <b>Guarantees</b>                                | <u>-</u>                              | <u>-</u>                              | <u>-</u>                       | <u>1,905,312</u>            | <u>1,905,312</u>     |
| <b>2020</b>                                      |                                       |                                       |                                |                             |                      |
| <b>ASSETS</b>                                    |                                       |                                       |                                |                             |                      |
| Cash and bank balances                           | 61,971,721                            | -                                     | -                              | -                           | 61,971,721           |
| Prepayments and other receivables                | 1,338,071                             | -                                     | -                              | -                           | 1,338,071            |
| Loans and advances, net                          | 3,520,011                             | 23,249,413                            | 9,880,865                      | -                           | 36,650,289           |
| Furniture, fixtures and office equipment         | -                                     | -                                     | -                              | 143,099                     | 143,099              |
| Intangible assets                                | -                                     | -                                     | -                              | 3,533                       | 3,533                |
|  | <u>66,829,803</u>                     | <u>23,249,413</u>                     | <u>9,880,865</u>               | <u>146,632</u>              | <u>100,106,713</u>   |
| <b>LIABILITIES</b>                               |                                       |                                       |                                |                             |                      |
| Due to a related party                           | -                                     | -                                     | 1,414,683                      | -                           | 1,414,683            |
| Other payables                                   | 241,012                               | -                                     | -                              | 2,940,884                   | 3,181,896            |
| Provision for employees' end of service benefits | -                                     | -                                     | -                              | 86,776                      | 86,776               |
| Shareholders' equity                             | -                                     | -                                     | -                              | 95,423,358                  | 95,423,358           |
|  | <u>241,012</u>                        | <u>-</u>                              | <u>1,414,683</u>               | <u>98,451,018</u>           | <u>100,106,713</u>   |
| <b>Guarantees</b>                                | <u>-</u>                              | <u>-</u>                              | <u>-</u>                       | <u>1,905,312</u>            | <u>1,905,312</u>     |

### 17 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank banks, loans and advances and certain other assets. Financial liabilities consist of due to a related party and other payables.

The fair values of financial instruments are not materially different from their carrying values.