Finance House P.J.S.C.

Consolidated financial statements

31 December 2019

Principal business address:
P O Box 7878
Abu Dhabi
United Arab Emirates

Finance House P.J.S.C.

Consolidated financial statements

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Independent Auditors' Report

To the Shareholders of Finance House P.J.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Finance House P.J.S.C (the "Company"), and its subsidiaries (together referred as "the Group) which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (continued)

Measurement of Expected Credit Losses ("ECL") on loans and advances and Islamic financing and investing assets

Refer to note 6 of the consolidated financial statements.

As at 31 December 2019, the Group has significant balance of *loans and advances and Islamic financing and investing assets* representing 65% of total assets.

The Group recognized allowances for credit losses on its consolidated statement of financial position.

The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining Loss Given Default ("LGD") and Exposure at Default ("EAD") for both funded and unfunded exposures, forward looking adjustments and staging criteria. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors.

Given the inherently judgemental nature of computation of ECL for loans and advances and Islamic financing and investing assets, this is considered a key audit matter.

Our response

We have performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL process and to understand the governance framework around model review, validation and approval of ECL model, data gathering and its integrity and underlying estimates and assumptions used by management.

Our procedures included the following:

- Testing key controls over the modelling process, including model review, validation and approval;
- Testing key controls over the accuracy of key inputs and appropriateness of key assumptions and judgments used in the models;
- Testing key controls over significant increase in credit risk ("SICR") criteria involved testing controls relating to authorisation of the criteria and the application of the criteria in the models;
- Testing key controls over internal credit grading (which is a key driver in determining SICR) and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified and updated on a timely basis;
- Testing the design and implementation over the assessment of model outputs and authorisation and review of post model adjustments and management overlays;

Our response (continued)

- We involved our Financial Risk Modelling ("FRM") specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This included challenging key assumptions/ judgments relating to significant increase in credit risk, definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes. FRM specialists also re-performed key elements of the Group's models calculations and evaluated the models performance results for accuracy;

- Sample testing over key inputs impacting ECL calculations to confirm the accuracy of information used and evaluating key assumptions including economic forecasts and weightages;

- Re-performing key aspects of the Group's SICR determinations and selecting samples of loans and advances to determine whether a SICR was appropriately identified;

- Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades at a given point in time and assess the financial performance of the borrower, source of repayment and future cash flows of the borrower to assess recoverability and ECL by comparing key assumptions to progress against business plans and our own understanding of relevant industries and business environment and where possible to externally derived evidence such as business performance and real estate valuations for assessing the appropriateness of collateral values held by the Group; and

- Assessing the adequacy of the Group's disclosure in relation to the requirements of IFRS 7 and IFRS 9.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 13 February 2019.

Other Information

Management is responsible for the other information. The other information comprises the Chairman's report (but does not include the consolidated financial statements and our auditors' report thereon), which we obtained prior to the date of this auditors' report.

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

Other Information (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 Group's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Chairman' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) as disclosed in note 19 to the consolidated financial statements, the Group purchased or invested shares during the financial year ended 31 December 2019;

vi) note 38 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2019; and

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

KPMG Lower Gulf Limited

Emilio Pera
Registration No.: 1146
Abu Dhabi, United Arab Emirates
Date: 16 FEB 2020

Finance House P.J.S.C

Consolidated statement of financial position
as at 31 December

	Note	2019 AED'000	2018 AED'000
Assets			
Cash balances	*18*	**16,134**	17,599
Due from banks	*18*	**499,808**	512,179
Investment securities	*19*	**439,328**	723,799
Loans and advances	*20*	**2,452,030**	2,300,504
Islamic financing and investing assets	*21*	**90,850**	142,614
Investment in equity accounted investees	*22*	**90,095**	50,485
Interest receivable and other assets	*23*	**107,532**	142,027
Insurance receivables and contract assets	*24*	**111,265**	94,462
Property, fixtures and equipment	*25*	**102,261**	24,532
Intangibles	*26*	**6,705**	6,705
Investment properties	*27*	**7,925**	79,478
Total assets		**3,923,933**	4,094,384
Liabilities and Equity			
Liabilities			
Customers' deposits and margin accounts	*28*	**2,470,807**	2,746,891
Due to banks and other financial institutions	*18*	**13,459**	15,014
Short term borrowings	*29*	**173,100**	27,600
Medium term loan	*29*	**100,003**	183,335
Unearned premiums		**94,890**	88,938
Gross claims outstanding		**58,851**	63,352
Lease liabilities		**8,374**	-
Interest payable and other liabilities	*30*	**195,392**	187,001
Provision for employees' end of service benefits	*31*	**14,573**	14,080
Total liabilities		**3,129,449**	3,326,211

Finance House P.J.S.C

Consolidated statement of financial position *(continued)*
as at 31 December

	Note	**2019 AED'000**	2018 AED'000
Equity			
Share capital	*32*	**310,050**	310,050
Treasury shares	*33*	**(21,402)**	(21,402)
Employees' share-based payment scheme	*34*	**(1,750)**	(1,750)
Statutory reserve	*35*	**148,726**	147,367
Fair value reserve		**(41,525)**	(44,690)
Retained earnings		**15,980**	20,146
Tier 1 Sukuk	*36*	**280,400**	281,500
Tier 1 Bonds	*36*	**15,000**	-
Proposed directors' remuneration		**1,223**	1,064
		706,702	692,285
Non-controlling interests		**87,782**	75,888
Total equity		**794,484**	768,173
Total liabilities and equity		**3,923,933**	4,094,384
Commitments and contingent liabilities	*37*	**1,114,002**	1,544,002

These consolidated financial statements were authorized and approved for issue by the Board of Directors on 16 February 2020 and signed on their behalf by:

Mr. Mohammed Alqubaisi
Chairman

Mr. Hamid Taylor
General Manager

The notes on pages 15 to 106 are an integral part of this consolidated financial statements.

Finance House P.J.S.C

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December

	Note	**2019 AED'000**	2018 AED'000
Interest income and income from Islamic financing and investing assets	*11*	**259,959**	280,560
Interest expense and profit distributable to depositors	*11*	**(85,621)**	(85,608)
Net interest income and income from Islamic financing and investing assets	*11*	**174,338**	194,952
Fee and commission income	*12*	**53,685**	68,153
Fee and commission expenses	*12*	**(10,640)**	(21,405)
Net fee and commission income	*12*	**43,045**	46,748
Net insurance premium earned		**147,139**	141,399
Net commission paid		**(11,698)**	(11,323)
Net insurance claims incurred		**(84,411)**	(84,443)
Other underwriting income/(expenses)		**(5,445)**	(6,860)
Net insurance income		**45,585**	**38,773**
Net investment income / (loss)	*13*	**14,279**	(407)
Credit impairment loss on loans and advances	*20*	**(69,258)**	(75,848)
Credit impairment loss on Islamic financing and investing assets	*21*	**(1,200)**	(4,313)
Other operating income - net	*14*	**21,027**	21,625
Net operating income		**227,816**	221,531
Salaries and employees related expenses	*15*	**(142,790)**	(145,001)
Depreciation of property, fixtures and equipment	*25*	**(16,382)**	(8,701)
Amortization of intangibles	*26*	**-**	(261)
Interest on lease liabilities		**(318)**	-
General and administrative expenses	*16*	**(45,516)**	(48,494)
Operating profit for the year		**22,810**	19,074
Share of loss of equity accounted investees	*22*	**(365)**	(1,235)
Profit for the year		**22,445**	17,840

Finance House P.J.S.C

Consolidated statement of profit or loss and other comprehensive income

(continued)

for the year ended 31 December

	Note	**2019 AED'000**	2018 AED'000
Profit for the year		**22,445**	17,840
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Gain / (loss) on changes in fair value of financial assets carried at fair value through other comprehensive income		**21,940**	(42,336)
Directors' remuneration		**(1,064)**	(3,090)
Other comprehensive income / (loss) for the year		**20,876**	(45,426)
Total comprehensive income / (loss) for the year		**43,321**	(27,586)
Profit attributable to:			
Equity holders of the parent		**13,592**	11,825
Non-controlling interests		**8,853**	6,015
		22,445	17,840
Total comprehensive income attributable to:			
Equity holders of the parent		**31,428**	(32,430)
Non-controlling interests		**11,893**	4,844
		43,321	(27,586)
Basic and diluted earnings per share attributable to ordinary shares (AED)	*17*	**(0.03)**	(0.04)

The notes on pages 15 to 106 are an integral part of this consolidated financial statements.

Finance House P.J.S.C

Consolidated statement of changes in equity

for the year ended 31 December

	Share Capital AED'000	Treasury shares AED'000	Employees' share-based payment scheme AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Proposed directors' remuneration AED'000	Tier 1 Sukuk AED'000	Tier 1 Bonds AED'000	Attributable to shareholders of the parent AED'000	Non controlling interest AED'000	Total AED'000
Balance at 1 January 2018	310,050	(21,402)	(1,750)	146,185	(6,305)	117,349	3,090	283,550	-	830,767	72,432	903,199
Changes on initial application of IFRS 9	-	-	-	-	-	(66,361)	-	-	-	(66,361)		(66,361)
Restated balance at 1 January 2018	310,050	(21,402)	(1,750)	146,185	(6,305)	50,988	3,090	283,550	-	764,406	72,432	836,838
Loss on disposal of investments carried at Fair value through other comprehensive income	-	-	-	-	2,780	(2,780)	-	-	-	-	93	93
Profit for the year	-	-	-	-	-	11,825	-	-	-	11,825	6,015	17,840
Net change in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(41,165)	-	-	-	-	(41,165)	(1,264)	(42,429)
Directors remuneration paid	-	-	-	-	-	-	(3,090)	-	-	(3,090)	-	(3,090)
Total comprehensive income for the year	-	-	-	-	(41,165)	11,825	(3,090)	-	-	(32,430)	(4,751)	(27,679)
Proposed directors' remuneration	-	-	-	-	-	(1,064)	1,064	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	(15,141)	-	-	-	(15,141)	-	(15,141)
Transfer to statutory reserve	-	-	-	1,182	-	(1,182)	-	-	-	-	-	-
Elimination of Tier I Sukuk	-	-	-	-	-	-	-	(2,050)	-	(2,050)	-	(2,050)
Decrease in non-Treasury shares	-	-	-	-	-	-	-	-	-	-	(1,388)	(1,388)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(22,500)	-	-	-	(22,500)	-	(22,500)
Balance at 31 December 2018	310,050	(21,402)	(1,750)	147,367	(44,690)	20,146	1,064	281,500	-	692,285	75,888	768,173
Adjustment on initial application of IFRS 16 (see note 3d)	-	-	-	-	-	-	-	-	-	-	-	-

Finance House P.J.S.C

Consolidated statement of changes in equity

for the year ended 31 December

	Share Capital AED'000	Treasury shares AED'000	Employees' share-based payment scheme AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Proposed directors' remuneration AED'000	Tier 1 Sukuk AED'000	Tier 1 Bonds AED'000	Attributable to shareholders of the parent AED'000	Non controlling interest AED'000	Total AED'000
Balance at 1 January 2019	**310,050**	**(21,402)**	**(1,750)**	**147,367**	**(44,690)**	**20,146**	**1,064**	**281,500**	**-**	**692,285**	**75,888**	**768,173**
Profit on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	(15,735)	15,735	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	13,592	-	-	-	13,592	8,853	21,777
Net changes in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	18,900	-	-	-	-	18,900	3,041	21,941
Directors remuneration paid	-	-	-	-	-	-	(1,064)	-	-	(1,064)	-	(1,064)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**18,900**	**29,327**	**(1,064)**	**-**	**-**	**31,428**	**11,894**	**43,322**
Proposed director's remuneration	-	-	-	-	-	(1,223)	1,223	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	(8,873)	-	-	-	(8,873)	-	(8,873)
Transfer to statutory reserve	-	-	-	1,359	-	(1,359)	-	-	-	-	-	-
Elimination of Tier I Sukuk	-	-	-	-	-	-	-	-	-	-	-	-
Movement in Tier 1 Sukuk / Bonds	-	-	-	-	-	-	-	(1,100)	15,000	13,900	-	13,900
Tier 1 SUKUK coupon paid	-	-	-	-	-	(22,038)	-	-	-	(22,038)	-	(22,038)
Balance at 31 December 2019	**310,050**	**(21,402)**	**(1,750)**	**148,726**	**(41,525)**	**15,980**	**1,223**	**280,400**	**15,000**	**706,702**	**87,782**	**794,484**

The notes on pages 15 to 106 are an integral part of this consolidated financial statements**.**

Finance House P.J.S.C

Consolidated statement of cash flows
for the year ended 31 December

	Note	**2019 AED'000**	2018 AED'000
Cash flows from operating activities			
Profit for the year		**22,445**	17,840
Adjustments for:			
Depreciation of property, fixtures and equipment		**16,382**	8,701
Amortization of intangible assets		**-**	261
Interest on lease liabilities		**318**	-
Share of result of equity accounted investee		**365**	1,235
Dividend income from investments		**(20,413)**	(27,560)
Loss / (gain) on disposal of investments carried at fair value through profit or loss		**25,475**	(3,531)
Net change in fair value of investments carried at fair value through profit or loss		**(16,051)**	31,498
Net impairment loss on loans and advances and Islamic assets		**70,458**	79,496
Net change in fair valuation of investment properties		**157**	2,592
Net movement in provision for employees' end of service benefits		**493**	456
		99,629	110,988
Changes in:			
Islamic financing and investing assets		**50,564**	21,959
Loans and advances		**(224,388)**	(101,764)
Interest receivable and other assets		**34,859**	(1,163)
Insurance receivables and contract assets		**(16,803)**	(27,126)
Customers' deposits and margin accounts		**(276,084)**	(203,653)
Unearned premiums		**5,952**	(36,404)
Gross claims outstanding		**(4,501)**	44,234
Interest payable and other liabilities		**8,391**	45,064
Net cash used in operating activities		**(322,381)**	(147,865)
Cash flows from investing activities			
Purchase of investments carried at fair value through other comprehensive income		**(20,076)**	(78,603)
Proceeds from sale of investments carried at fair value through other comprehensive income		**248,870**	192,031
Purchase of investments carried at fair value through profit or loss		**(16,726)**	(123,303)
Proceeds from sale of investments carried at fair value through profit or loss		**82,699**	110,310
Proceeds from sale of investments carried at amortized cost		**1,837**	81,654
Purchase of investments carried at amortized cost		**-**	(1,837)
Purchase of property, fixtures and equipment		**(3,065)**	(19,343)
Disposal of property, fixtures and equipment		**20**	-
Purchase of investments in equity accounted investee		**(39,975)**	-
Dividend received		**20,413**	27,560
Net cash generated from investing activities		**273,997**	188,469

Finance House P.J.S.C

Consolidated statement of cash flows *(continued)*
for the year ended 31 December

	Note	**2019 AED'000**	2018 AED'000
Cash flows from financing activities			
Repayments of short-term borrowings		**(14,500)**	(238,810)
Repayment of Medium-term loans		**(83,332)**	(87,499)
Proceed from Short Term borrowings		**160,000**	150,000
Movement in Tier 1 Sukuk		**(1,100)**	(2,050)
Proceeds from Tier 1 Bonds		**15,000**	-
Tier 1 SUKUK coupon paid		**(21,076)**	(22,500)
Tier 1 Bonds dividend paid		**(962)**	-
Lease liabilities paid		**(8,374)**	-
Cash dividend paid		**(8,873)**	(15,141)
Change in non-controlling interest		**-**	(1,388)
Directors' remuneration paid		**(1,064)**	(3,090)
Net cash generated from / (used in) financing activities		**35,719**	(220,478)
Net decrease in cash and cash equivalents		**(12,665)**	(179,874)
Cash and cash equivalents at 1 January		**509,148**	688,638
Cash and cash equivalents at 31 December	*18*	**496,483**	508,764

The notes on pages 15 to 106 are an integral part of this consolidated financial statements.

1 Legal status and principal activities

Finance House P.J.S.C. ("the Company") is a Public Joint Stock Company incorporated in Abu Dhabi, United Arab Emirates (U.A.E.) in accordance with the provisions of the U.A.E. Federal Commercial Companies Law No. (2) of 2015, the Decretal Federal Law No. 14 of 2018 regarding the Central Bank and Organization of Financial Institution and Activities and under authority of resolutions of the Board of Directors of the U.A.E. Central Bank relating to Finance Companies.

The registered head office of the Company is at P.O. Box 7878, Abu Dhabi, U.A.E.

The Company was established on 13 March 2004 and commenced its operations on 18 July 2004. The Company performs its activities through its head office in Abu Dhabi and its Abu Dhabi, Dubai, Sharjah and Musaffah branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

On 24 October 2018, management of Islamic Finance House ("the Subsidiary") submitted an adjustment plan for restructuring the Subsidiary to the Central Bank of UAE. The adjustment plan has been approved by the Board of Directors on the 6th of February 2019 and by the Central Bank of the UAE on 10th October 2019. The purpose of the plan is to adjust the activities of the subsidiary to meet the requirements of the newly issued regulations for finance companies.

These consolidated financial statements comprise the Company and its subsidiaries (together referred as "the Group").

The consolidated financial statements were authorized for issue by the Board of Directors on 16 February 2020.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards, and interpretations issued by the IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS and the applicable requirements of the laws in the U.A.E. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

This is the first set of the Group's annual consolidated financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in note 3.

(b) Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis except for debt securities, equity shares that are classified as either fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVTOCI) and investment properties that are measured at their fair values at the end of each reporting period.

(c) Functional and presentation currency

The consolidated financial statements of the Group are prepared in U.A.E. Dirham (AED) which is the functional currency of the Group. All values are rounded to the nearest thousand (AED '000), except otherwise indicated.

2 Basis of preparation *(continued)*

(d) Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent liabilities. Actual results may differ from these estimates.

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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described in note 5 to the financial statements.

3 Changes in significant accounting policies

The Group initially applied IFRS 16 *Leases* from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group's financial statements.

IFRS 16 Leases

The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 haven't generally been applied to comparative information.

a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

b) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

3 Changes in significant accounting policies *(continued)*

***IFRS 16 Leases** (continued)*

***b) As a lessee** (continued)*

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. *(see Note 3 (d) Impact of leases on financial statements).*

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment. For leases of other assets, which were classified as operating under IAS 17, the Group recognized right-of-use assets and lease liabilities.

i. Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application
- the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

ii. Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3 Changes in significant accounting policies *(continued)*

IFRS 16 Leases *(continued)*

c) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Group concluded that the sub-lease is a finance lease under IFRS 16.

d) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below:

	1 January 2019 AED'000
Right of use assets presented in property and equipment	**16,066**
Lease liabilities	**13,376**
Retained earnings	**-**

	1 January 2019 AED'000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the group's consolidated financial statements	**13,930**
Discount using the incremental borrowing rate at 1 January 2019	**3.05%**
Recognition exemption for leases with less than 12 months of lease term at Transition	**-**
Lease liabilities recognized at 1 January 2019	**13,376**

	2019 AED'000
Interest on lease liabilities	**318**
Rent expense relating to short term leases	**674**

	2018 AED'000
Operating expense under IAS 17	7,351

4 Significant accounting policies

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

(a) Standards issued but not yet effective

i. 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 2022, 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.

The Group is currently assessing the impact of the above new standard on the consolidated financial statements.

ii. Other standards

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

• Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
• Definition of a Business (Amendments to IFRS 3)	1 January 2020
• Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020

The Group, however, expects no material impact from the adoption of the above new and amended standards on its financial position or performance.

4 Significant accounting policies *(continued)*

(b) Subsidiaries

Control is achieved when the Group:

- has power over an investee,
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and/or ceases when the Group loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributable to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Parent.

4 Significant accounting policies *(continued)*

(b) Subsidiaries *(continued)*

When a change in the Group's ownership interest in a subsidiary result in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognized. Amounts previously recognized in other comprehensive income in respect of that entity are also reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost, and its fair value is recognized in the consolidated statement of profit or loss.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 'Financial Instruments' or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(c) Investment in equity accounted investees

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

(d) Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealized gains on transactions between the group and its associates are eliminated to the extent of the group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in *Note 4(m).*

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

4 Significant accounting policies *(continued)*

(e) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards are included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the consolidated statement profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in profit or loss.

4 Significant accounting policies *(continued)*

(f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position

(g) Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

i. those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
ii. those to be measured at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or consolidated statement of other comprehensive income. For investments in debt instruments, this will depend on the business model for which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

In addition, on initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to record subsequent changes in fair value in OCI. The election is made on an investment-by-investment basis.

Reclassification

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

4 Significant accounting policies *(continued)*

(g) ***Financial assets*** *(continued)*

Debt instruments *(continued)*

i. Amortized cost: financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in the profit and loss within the interest income using the effective interest rate method.

ii. Fair value through other comprehensive income (FVOCI): financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in the profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

iii. Fair value through profit or loss: financial assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in the profit and loss and presented net in the profit and loss within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group'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 Group 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.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test').

In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

4 Significant accounting policies *(continued)*

(g) ***Financial assets*** *(continued)*

Debt instruments *(continued)*

The Group reclassifies debt investments when and only 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 was no material reclassification 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 Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has *elected, at initial recognition, to irrevocably designate an equity investment* at fair value through other comprehensive income. The Group'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 from such investments continue to be recognized in Profit and loss and when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized in net income from investment in the profit and loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Amortised cost and effective interest method

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 amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest 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, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group 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 interest rate. Any changes are recognised profit and loss.

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

4 Significant accounting policies *(continued)*

(g) ***Financial assets*** *(continued)*

Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or lability.

If the Group enters into transactions whereby it transfers assets recognized on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortized cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group 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 6(b)(iv) provides more details of how the expected credit loss allowance is measured.

4 Significant accounting policies *(continued)*

(g) ***Financial assets*** *(continued)*

<u>Modification of loans</u>

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

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

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest 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 Group 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 debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit and 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 Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit and loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

<u>Derecognition other than on a modification</u>

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

The Group 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.

4 Significant accounting policies *(continued)*

(g) ***Financial assets*** *(continued)*

<u>Derecognition other than on a modification *(continued)*</u>

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

- 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.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Group retains a subordinated residual interest.

(h) ***Financial liabilities***

<u>Classification and subsequent measurement</u>

Financial liabilities (including customers' deposits and margin accounts' and 'due to bank – short term borrowings and medium-term loans') are initially recognized at fair value and subsequently measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

<u>Derecognition</u>

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

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the consolidated statement of financial position, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss.

4 Significant accounting policies *(continued)*

(h) ***Financial liabilities*** *(continued)*

Modification

The Group derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(i) Financial guarantee contracts and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance calculated as described in *Note 6*.

(j) Islamic financing and investing assets

Islamic financing assets are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable.

Murabaha
A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

4 Significant accounting policies *(continued)*

(j) ***Islamic financing and investing assets*** *(continued)*

Wakala
An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Ijara
Ijara's cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value. The Ijara and purchase and leaseback are classified as a finance lease, when the Group undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

(k) Property, fixtures and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Subsequent costs

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss.

4 Significant accounting policies *(continued)*

(k) ***Property, fixtures and equipment*** *(continued)*

Depreciation *(continued)*

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

	Years
Motor vehicles	4
Furniture, fixtures and equipment	3-5
Computer hardware	3-4

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Capital work-in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

(l) ***Intangible assets***

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the Profit and loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The estimated useful economic life of the intangible asset for the calculation of amortization is as 5 years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit and loss when the asset is derecognized.

(m) ***Impairment of non-financial assets***

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

4 Significant accounting policies *(continued)*

(m) ***Impairment of non-financial assets*** *(continued)*

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) ***Investment properties***

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss in the year of retirement or disposal.

4 Significant accounting policies *(continued)*

(n) ***Investment properties*** *(continued)*

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker's quotes.

(o) Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of profit or loss.

(p) Reinsurance contracts held

In order to minimize financial exposure from large claims, the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to receivables arising from insurance and reinsurance companies.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policy holders.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire when the contract is transferred to another party.

(q) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date ("Repo") are not derecognized. The counterparty liability for amounts received under these agreements is included in term loans in the consolidated statement of financial position, as appropriate. The difference between the sale and repurchase price is treated as interest expense, which is accrued over the life of the repo agreement using the effective interest rate.

4 Significant accounting policies *(continued)*

(r) Operating segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's CODM include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax assets and liabilities

(s) Provisions

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

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

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

<u>Special provisions</u>

Unearned Premium Reserve (UPR)
Unearned Premium Reserve (UPR) represents that portion of premiums earned, gross of reinsurance, which relates to the period of insurance subsequent to the statement of financial position date and is mainly computed using a linear method based on the outstanding period from the date of statement of financial position up to the date of the maturity of the policy based on actuarial estimates obtained from an independent actuary in accordance with the Financial Regulations for Insurance Companies issued by the Insurance Authority, U.A.E.

Provision for IBNR
Provision for Incurred but Not Reported ("IBNR") claims is made at the statement of financial position date based on an actuarial estimate obtained from an independent actuary in accordance with the Financial Regulations for Insurance Companies issued by the Insurance Authority U.A.E.

Provision for ULAE
Provision for Unallocated Loss Adjustment Expenses (ULAE) which cannot be allocated to specific claims, is made at the statement of financial position date based on actuarial estimates obtained from an independent actuary in accordance with the Financial Regulations for Insurance Companies issued by the Insurance Authority, U.A.E

4 Significant accounting policies *(continued)*

(t) Employees' end of service benefits

Defined contribution plan

With respect to its U.A.E. national employees, the Group makes contributions to the relevant government pension scheme, calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Defined benefit plan

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

Share-based payments

The grant-date fair value of equity settled share base payment arrangements granted to employees is recognized as personal expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to meet, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share capital, other equity and reserves

Other equity instruments
The Group classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's other equity instruments are not redeemable by holders and bear an entitlement to coupons at the sole discretion of the board of directors. Accordingly, they are presented within equity. Distributions thereon are recognised in equity. Based on the Group's assessment of the terms of the instruments, the coupon payments meet the definition of dividends.

(u) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the consolidated statement of financial position date. Any resultant gains and losses are recognized in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4 Significant accounting policies *(continued)*

(v) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(w) Earnings per share

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees *(note 17)*.

(x) Fair values measurements

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 Group 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 categorized 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 inputs, 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.

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.

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.

4 Significant accounting policies *(continued)*

(x) ***Fair values measurements*** *(continued)*

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 7.

Management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. External valuers are involved for valuation of significant assets, such as investment property. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Management, in conjunction with the Group's external valuers, also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

(y) ***Recognition of income and expenses***

i. ***Interest***

For all financial instruments measured at amortized cost and interest bearing financial instruments, interest income or expense 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 Group 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.

4 Significant accounting policies *(continued)*

(y) ***Recognition of income and expenses*** *(continued)*

ii. ***Fee and commission***

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.

- Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

iii. ***Murabaha***

Murabaha income is recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

iv. ***Ijara***

Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

v. ***Wakala***

Estimated income from Wakala 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.

vi. ***Income on balances with financial institutions***

Income on balances with financial institutions is calculated, on account, based on the expected/anticipated profit rates net of relevant fees and expenses.

vii. ***Dividend income***

Income is recognized when the Group's right to receive the payment is established.

viii. ***Insurance income***

Insurance contracts

Insurance contracts are those contracts where the Group has accepted significant insurance risk from another party (the "policyholders") by agreeing to compensate the policyholders if a specified uncertain future event (the "insured event") adversely affects the policyholders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

4 Significant accounting policies *(continued)*

(y) ***Recognition of income and expenses*** *(continued)*

viii. ***Insurance income*** *(continued)*

Premiums earned

Premiums written are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired periods of coverage.

Commissions earned

Profit commission is accounted for as and when received while other commissions are accounted for when earned.

Claims

Claims comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group.

The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims.

The Group does not discount its liability for unpaid claims as these are expected to be settled within one year of reporting date.

5 Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(a) ***Judgments***

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

i. ***Consolidation of entities in which the Group holds less than majority of voting rights***

The Group considers that it controls Insurance House P.S.C. even though it owns less than 50% of the voting rights. The Company is the largest shareholder of Insurance House P.S.C. with 45.61% equity interest. Furthermore, the Company has substantial and material board presence and control over key financial and operational decisions.

5 Significant accounting judgements and estimates *(continued)*

(a) ***Judgments*** *(continued)*

ii. ***Classification of properties***

Management decides, on acquisition of a property, whether it should be classified as investment property, property and equipment or as property held for sale. Properties acquired by the Group are recorded as investment properties if these were acquired for rental purposes, capital appreciation or as a settlement of loan. Properties held for own use are recorded as property, fixtures and equipment. Properties are recorded as held for sale if their carrying amounts will be recovered through a sale transaction.

(b) ***Estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the consolidated financial statements when they occur.

i. ***Fair value of investment properties***

The Group engaged an independent valuation specialist to assess fair value for its investment properties using a valuation methodology based on the 'income method'. The key assumptions used to determine the fair value of investment properties and sensitivity analyses are disclosed in Notes 7 and 28.

ii. ***Fair value of unquoted investments***

As described in Note 7, management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Such financial instruments are valued using discounted cash flow and capitalization of sustainable earnings analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unquoted shares includes some assumptions not supported by observable market prices or rates. Details of assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in *Note 7*.

iii. ***Measurement of the expected credit loss allowance***

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in *Note 6(b)(vi)*.

5 Significant accounting judgements and estimates *(continued)*

(b) *Estimates and assumptions (continued)*

iii. 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 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

iv. Provision for outstanding claims

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Group's internal legal counsel normally estimate such claims. Management reviews its provisions for claims incurred on a quarterly basis.

v. Impairment of goodwill

The impairment of goodwill is performed by firstly identifying the reporting units and how the goodwill is assigned to these units. The fair value of each reporting unit is estimated using the significant assumptions and estimates along with the impact of the events and circumstances that may affect these judgements. The key assumptions used in testing for impairment are based on management's expectations for operational development and growth, which are partly based on past experience. The calculation used risk-adjusted cashflow projections based on financial budgets and business plans approved by the management covering a budget period of 5 years. Cashflows beyond the 5-year budget period are extrapolated using an estimated growth rate of 3%. This growth rate does not exceed the long-term average growth rate for the markets in which the reporting segments operates. A WACC of 11% has been used to calculate the discounted cashflows for the Group.

6 Financial risk management

(a) Introduction

Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

i. Risk management structure

In line with the best practice followed in world class financial institutions the overall risk management responsibility lies with the Board of Directors of the Group, under which there is an Investment and Credit Committee (ICC) comprising of six board members and the Group Chief Risk Officer who take responsibility for identifying and controlling the risks.

Board of Directors

The overall risk management responsibility lies with the Board of Directors of the Group. It provides the direction, strategy and oversight of all the activities through various committees.

Audit Committee

The Audit Committee comprises three members who are also part of the Board of Directors of the Group. The Audit Committee has the overall responsibility of assessing the internal audit findings, directing implementation of audit recommendations and overseeing the internal audit activities undertaken within the internal control environment and regulatory compliance framework of the Group. Duties and responsibilities of the Audit Committee are governed by a formally approved Audit Committee Charter which is in line with best practice and control governance.

Asset Liability Committee (ALCO)

The asset liability management process is an act of planning, acquiring, and directing the flow of funds through an organization. The ultimate objective of this process is to generate adequate and stable earnings and to steadily build an organization's equity over time, while taking measured business risks. The Group has a well-defined asset liability management policy duly describing the objective, role and function of the Asset Liability Committee, which is the body within the Group that holds the responsibility to make strategic decisions to manage balance sheet related risks. The Asset Liability Committee, consisting of the Group's senior management, meets at least once a month.

Investment and Credit Committee (ICC)

All major business proposals of clients are approved through the ICC. The ICC is a sub-committee of the Board of Directors. The approval process and the authorities vested with the ICC members are well defined in a credit policy manual. The policy manual enumerates various procedures to be followed by relationship managers in bringing relationships to the Group. Various aspects of the credit approval process have been defined in the policy which enables efficient approval of the proposals.

6 Financial risk management *(continued)*

(a) ***Introduction*** *(continued)*

i. ***Risk management structure*** *(continued)*

Risk Management Department (RMD)

The RMD is an independent unit reporting to the Group Chief Risk Officer. The RMD is responsible for identifying, measuring, monitoring and controlling the risks arising out of various activities in the Group by the different business units. The process is through partnering with the units in identifying and addressing the risks by setting limits and reporting on the utilization thereof.

The RMD also monitors compliance with the regulatory procedures and anti-money laundering monitoring procedures of the Group.

Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Group.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee. The Head of Internal Audit has direct reporting lines to the Audit Committee in order to secure independence and objectivity in all audit engagements undertaken within the Group.

ii. ***Risk measurement and reporting systems***

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RMD, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RMD receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

6 Financial risk management *(continued)*

(a) ***Introduction*** *(continued)*

iii. ***Risk mitigation***

As part of its overall risk management, the Group uses certain instruments to manage exposures resulting from changes in interest rates and foreign currencies. The Group actively uses collateral to reduce its credit risks.

iv. ***Risk concentration***

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting an industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific industries or businesses.

Details of the composition of the loans, advances and Islamic financing and investing portfolio are provided in notes 20 and 21. Information on credit risk is provided in note 6(b).

v. ***Risk assessment***

The Group has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Insurance risk

(b) ***Credit risk***

'Credit risk' is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk

Credit risk is the single largest risk from the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralized in a risk management department which reports regularly to the Risk Management Committee.

The ECL recorded on loans and advances measured at amortized cost and Islamic financing and investing assets measured at amortized cost has been disclosed in note 20 and 21 respectively.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

i. Settlement risk

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

For certain types of transaction, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Group Risk.

ii. Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was Nil. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

iii. Modification of financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

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

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

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

iii. ***Modification of financial assets*** *(continued)*

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

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

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

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

iv. ***Credit risk measurement***

Loans and advances (including loan commitments, LCs and LGs)

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 Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The Group uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Group uses specific internal risk rating models tailored to the various categories of industry/segments of counterparty. Borrower and loan specific information collected at the time of application (such as financial spread, management quality, Risk Bureau information, and account conduct, turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input such as credit bureau scoring on individual borrowers into the model. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations, which may not be captured as part of the other data inputs into the model.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

iv. ***Credit risk measurement*** *(continued)*

The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between an 18 and 20 rating grade.

The Risk Rating system for performing assets ranges from Obligor Risk Rating ("ORR") ORR 1 to ORR 7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated ORR 8 to ORR 10, corresponding to substandard, doubtful and loss classifications.

These risk ratings have been mapped into 5 Grades which are defined below:

Grade	Risk Rating	Definition
Grade 1	1-13	Investment grade
Grade 2	14-15	Substandard grade
Grade 3	16-17	Speculative grade
Grade 4	18-19	Very high speculative grade
Grade 5	20-22	Non-investment grade

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Retail risk parameters i.e. PD, LGD & CCF or EAD have been estimated using 'Segmentation Methodology' or 'Retail Pooling'; where following factors have been considered:

- Asset classification as Credit Card, Executive Finance (or Personal Loan) and SME (or small business loan);
- Days Past Due – 2 segment each for Stage 1 & Stage 2; and 1 for Stage 3

Risk parameters have been estimated with respect to above segments and used the same for ECL computation.

Wholesale

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as financial statements. This will determine the updated internal credit rating and the mapped PD.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

iv. ***Credit risk measurement*** *(continued)*

Treasury

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

v. ***Expected credit loss measurement***

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.

- 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 the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to following note for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information. The below note includes an explanation of how the Group has incorporated this in its ECL models.

The following diagram summarizes the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired financial assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

v. ***Expected credit loss measurement*** *(continued)*

Significant increase in credit risk (SICR)

The Group 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.

Quantitative criteria

Corporate Loans:
For Corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following factors: -

- Loan facilities restructured in the last 12 months;
- Loan facilities that are past due for 30 days and above but less than 90 days;
- Actual or expected change in external ratings and / or internal ratings

Retail:
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;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury:

- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment's expected performance & behaviour of borrower (collateral value, payment holiday, Payment to Income ratio etc.).

Qualitative criteria:

Corporate Loans:

- Feedback from the Early Warning Signal framework of the Group (along factors such as adverse change in business, financial or economic conditions).

Backstop:

A backstop is applied, and the financial asset is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2019.

vi. ***Definition of default and credit-impaired assets***

The Group defines a financial instrument as in default, which fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

vi. ***Definition of default and credit-impaired assets*** *(continued)*

In addition to 90 DPD, for the retail and corporate portfolio, the default definition used is consistent with the Basel Framework. According to the Basel II definition, default is considered to have occurred with regard to obligors when either one or the following events have taken place:

- The Group considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Group to actions like realizing security (if held).
- The Group puts credit obligation on non-accrued status.
- The Group makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Group taking on the exposure.
- The Group sells the credit obligation at a material credit-related economic loss.
- The Group 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, interest and other fees.
- The Group has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Group. The obligor has sought or has been placed in bankruptcy or similar protection wherein this would avoid or delay repayment of the credit obligation to the Group.
- The obligor is past due more than 90 days on any material credit obligation to the Group. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current outstanding.

The criteria above have been applied to all financial instruments held by the Group 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 Group'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 six months. This period of six 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.

vii. ***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 whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower 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 Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

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

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, 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 loan.

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 original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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

- For amortizing products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- 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 limit by the time of default. These assumptions vary by product type and current limit utilization based on analysis of the Group's recent default data.

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, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to the Note below for an explanation of forward-looking information and its inclusion in ECL calculations.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

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

These assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

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

viii. ***Forward-looking information incorporated in the ECL Models***

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group 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. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are updated from the World economic outlook: UAE country data and other reliable sources which provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the level of expected credit loss has been determined by performing statistical analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, the Group's Credit risk team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure plausible events are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2019 and 31 December 2019, for all portfolios the Group concluded that three scenarios representing the Downturn, Normal and Growth cases have been determined appropriate for capturing forward looking component in ECL. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The weightings assigned to each macro-economic scenario as at 31 December 2019, were 33.33% to all the scenarios. The assessment of SICR is performed based on credit risk assessment following UAECB rules and management assessment under each of the base, and the other scenarios, multiplied by the associated scenario weightings. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a 12 month ECL (Stage 1), or lifetime ECL (Stage 2). These ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

viii. ***Forward-looking information incorporated in the ECL Models*** *(continued)*

The assessment of the macroeconomic indicators and their impact on PD, EAD and LGD are computed on a quarterly basis and provide the best estimate view of the economy over the next ten years i.e. 'Macro Economy Scenario' for next ten years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Economic variable assumptions

The most significant period-end assumption used for the ECL estimate as at 31 December 2019 was Oil prices (Oil price 2020: $64.57/Barrel, 2021: $67.65/ Barrel).

ix. ***Sensitivity analysis of forward-looking factors***

The Group has calculated ECL for loans and advances on a segmented portfolio level, wholesale and retail.

Wholesale

The Group has used a scenario-based analysis approach on macroeconomic status to arrive at a forward-looking point-in-time PD, where management have assigned assumed probability weightage to the different scenarios on the state of economy. The Group has performed a sensitivity analysis on how ECL on the wholesale portfolio will change if the scenario probabilities used to calculate ECL change by a certain percentage. The impact on ECL due to a relative change in the assumed scenario by +10% / -10% in each of the base, upside and downside scenarios would result respectively in an ECL increase or decrease of AED 105 thousand. These changes are applied simultaneously to each probability-weighted scenario used to compute the expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

Retail

The most significant assumption affecting the ECL allowance in respect of the retail portfolio is Oil Price (% Change, Lag 0 months). The Group has performed a sensitivity analysis on how ECL on the retail portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to a relative change in the oil prices by +10% / -10% in each of the base, upside and downside scenarios would result respectively in an ECL increase or decrease of AED 1,601 thousand. These changes are applied simultaneously to each probability-weighted scenario used to compute the expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

x. ***Credit risk exposure***

Credit quality analysis

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 Group's maximum exposure to credit risk on these assets:

	2019			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Grading 1	**2,027,222**	**199,038**	**-**	**2,226,260**
Grading 2	**37,251**	**37,763**	**6,428**	**81,442**
Grading 3	**-**	**768**	**59,580**	**60,348**
Grading 4	**-**	**-**	**126,185**	**126,185**
Grading 5	**-**	**-**	**373,965**	**373,965**
	2,064,473	**237,569**	**566,158**	**2,868,200**
Loss allowance	**(15,957)**	**(14,382)**	**(385,831)**	**(416,170)**
Carrying amount	**2,048,516**	**223,187**	**180,327**	**2,452,030**
Islamic financing and investing assets				
Grading 1	**25,295**	**-**	**-**	**25,295**
Grading 2	**21,325**	**-**	**-**	**21,325**
Grading 3	**21,546**	**2,037**	**-**	**23,583**
Grading 4	**10,001**	**1,364**	**181**	**11,546**
Grading 5	**-**	**-**	**70,042**	**70,042**
	78,167	**3,401**	**70,223**	**151,791**
Loss allowance	**(973)**	**(1,158)**	**(58,810)**	**(60,941)**
Carrying amount	**77,194**	**2,243**	**11,413**	**90,850**

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

x. ***Credit risk exposure*** *(continued)*

Credit quality analysis *(continued)*

	2018			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Grading 1	575,990	5,828	-	581,818
Grading 2	483,649	17,646	-	501,295
Grading 3	669,592	125,753	-	795,345
Grading 4	160,568	138,813	-	299,381
Grading 5	-	-	474,310	474,310
	1,889,799	288,040	474,310	2,652,149
Loss allowance	(21,556)	(17,942)	(312,147)	(351,644)
Carrying amount	1,868,243	270,098	162,163	2,300,504
Islamic financing and investing assets				
Grading 1	40,060	-	-	40,060
Grading 2	37,077	-	-	37,077
Grading 3	37,461	3,409	-	40,870
Grading 4	17,388	2,283	167	19,838
Grading 5	-	-	64,510	64,510
	131,986	5,692	64,677	202,355
Loss allowance	(1,974)	(1,164)	(56,603)	(59,741)
Carrying amount	130,012	4,528	8,074	142,614

6 Financial risk management *(continued)*

(b) Credit risk *(continued)*

x. Credit risk exposure *(continued)*

Credit quality analysis *(continued)*

	2019			
	ECL staging			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	**16,532**	**-**	**-**	**16,532**
Guarantees	**1,021,092**	**14,795**	**57,383**	**1,093,270**
Loss allowance	**(2,710)**	**(43)**	**(21,041)**	**(23,794)**
Carrying amount	**1,034,914**	**14,752**	**36,342**	**1,086,008**
Credit risk exposures relating to on-balance sheet assets				
Cash and balances with the UAE Central Bank	**99,528**	**-**	**-**	**99,528**
Due from banks at investment grade	**416,414**	**-**	**-**	**416,414**
	515,942	**-**	**-**	**515,942**

6 Financial risk management *(continued)*

(b) *Credit risk (continued)*

x. ***Credit risk exposure*** *(continued)*

Credit quality analysis *(continued)*

	2018			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	169,522	-	-	169,522
Guarantees	1,301,264	10,533	58,483	1,370,280
Loss allowance	(4,472)	(144)	(18,293)	(22,909)
Carrying amount	1,466,314	10,389	40,190	1,516,893
Credit risk exposures relating to on-balance sheet assets				
Cash and balances with the UAE Central Bank	29,344	-	-	29,344
Due from banks at investment grade	500,434	-	-	500,434
Financial assets at amortized cost at investment grade	1,837	-	-	1,837
	531,615	-	-	531,615

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

x. ***Credit risk exposure*** *(continued)*

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against financial assets.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses.

The table below details the fair value of the collateral, which is updated regularly:

	Loans and advances and investment products		**Due from banks**	
	2019	2018	**2019**	2018
	AED'000	AED'000	**AED'000**	AED'000
Against individually impaired loans and advances:				
Property	**37,801**	53,488	-	-
Equities	**1,530**	1,872	-	-
Cash	**33,092**	5,319	-	-
Others	-	5,969	-	-
Total against Individually impaired	**72,423**	66,648	-	-
Against loans and advances not impaired:				
Property	**1,099,332**	863,153	-	-
Equities	**149,770**	85,061	-	-
Cash	**697,125**	903,232	-	-
Others	**29,455**	130,678	-	-
Total against not impaired	**1,975,682**	1,982,124	-	-

xi. ***Loss allowance***

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

xi. ***Loss allowance*** *(continued)*

- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following table explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Loans and advances				
Loss allowance as at 1 January	**21,556**	**17,942**	**312,147**	**351,645**
Transfers				
Transfer from Stage 1 to Stage 2	**(1,258)**	**3,051**	**-**	**1,793**
Transfer from Stage 1 to Stage 3	**(1,549)**	**-**	**32,913**	**31,364**
Transfer from Stage 2 to Stage 1	**1,752**	**(1,084)**	**-**	**668**
Transfer from Stage 2 to Stage 3	**-**	**(4,809)**	**15,069**	**10,260**
Transfer from Stage 3 to Stage 1	**37**	**-**	**(791)**	**(754)**
Transfer from Stage 3 to Stage 2	**-**	**222**	**(1,036)**	**(814)**
New financial assets originated	**3,865**	**1,234**	**2,640**	**7,739**
Changes in PDs/LGDs/EADs	**(5,608)**	**(850)**	**26,235**	**19,777**
Reversal of no longer required impairment charges	**(2,838)**	**(1,324)**	**(1,346)**	**(5,508)**
Loss allowance as at 31 December 2019	**15,957**	**14,382**	**385,831**	**416,170**
Islamic financing and investing assets				
Loss allowance as at 1 January	**1,975**	**1,163**	**56,603**	**59,741**
Transfers				
Transfer from Stage 1 to Stage 2	**(79)**	**79**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(461)**	**-**	**461**	**-**
Transfer from Stage 2 to Stage 1	**122**	**(122)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(962)**	**962**	**-**
Transfer from Stage 3 to Stage 1				
Transfer from Stage 3 to Stage 2	**-**	**948**	**(948)**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Changes in PDs/LGDs/EADs	**(597)**	**487**	**1,310**	**1,200**
Reversal of no longer required impairment charges	**-**	**-**	**-**	**-**
Loss allowance as at 31 December 2019	**960**	**1,593**	**58,388**	**60,941**

Finance House P.J.S.C

Notes to the consolidated financial statements

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

xi. ***Loss allowance*** *(continued)*

	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
Loss allowance as at 1 January	32,791	18,092	225,578	276,461
Transfers				
Transfer from Stage 1 to Stage 2	(2,872)	2,872	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(6,647)	6,647	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	4,830	1,887	-	6,717
Changes in PDs/LGDs/EADs	(13,195)	1,739	80,586	69,130
Reversal of no longer required impairment charges	-	-	(664)	(664)
Loss allowance as at 31 December 2018	21,554	17,943	312,147	351,644
Islamic financing and investing assets				
Loss allowance as at 1 January	5,129	2,674	47,625	55,428
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	(554)	-	554	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Changes in PDs/LGDs/EADs	(2,600)	(1,511)	8,424	4,313
Reversal of no longer required impairment charges	-	-	-	-
Loss allowance as at 31 December 2018	1,975	1,163	56,603	59,741

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

xii. ***Gross carrying amount***

The following table further explains the changes in the gross carrying amount from 1 January to 31 December 2019:

	2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loans and advances				
Gross carrying amount as at 1 January 2019	**1,897,909**	**295,023**	**473,312**	**2,666,244**
Transfers				
Transfer from Stage 1 to Stage 2	**(153,343)**	**50,393**	**-**	**(102,950)**
Transfer from Stage 1 to Stage 3	**(188,837)**	**-**	**48,296**	**(140,541)**
Transfer from Stage 2 to Stage 3	**213,554**	**(17,899)**	**-**	**195,655**
Transfer from Stage 3 to Stage 2	**-**	**(79,438)**	**22,112**	**(57,326)**
Transfer from Stage 2 to Stage 1	**4,495**	**-**	**(1,160)**	**3,335**
New financial assets originated	**-**	**3,672**	**(1,520)**	**2,152**
Repayments during the year	**895,802**	**21,061**	**(3,764)**	**913,099**
Other movements	**(259,090)**	**(13,369)**	**30,858**	**(241,601)**
Reversal of no longer required impairment charges	**(346,017)**	**(21,875)**	**(1,975)**	**(369,867)**
Gross carrying amount as at 31 December 2019	**2,064,473**	**237,568**	**566,159**	**2,868,200**
Islamic financing and investing activities				
Gross carrying amount as at 1 January 2019	**131,986**	**5,692**	**64,677**	**202,355**
Transfers				
Transfer from Stage 1 to Stage 2	**(2,751)**	**2,751**		
Transfer from Stage 1 to Stage 3	**(3,439)**	**-**	**3,439**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(3,925)**	**3,925**	**-**
Transfer from Stage 3 to Stage 2	**-**	**2,600**	**(2,600)**	**-**
Transfer from Stage 2 to Stage 1	**496**	**(496)**	**-**	**-**
New financial assets originated				
Repayments during the year	**(48,126)**	**(3,220)**	**-**	**(51,346)**
Other movements / Write offs	**-**	**-**	**782**	**782**
Reversal of no longer required impairment charges	**-**	**-**	**-**	**-**
Gross carrying amount as at 31 December 2019	**78,166**	**3,402**	**70,223**	**151,791**

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

xii. ***Gross carrying amount*** *(continued)*

	2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Cash and balances with the UAE Central Bank	**99,528**	**-**	**-**	**99,528**
Due from banks at investment grade	**416,414**	**-**	**-**	**416,414**
Financial assets measured at amortised cost at investment grade	**-**	**-**	**-**	**-**
	515,942			**515,942**

There were no transfers between the stages during the year ended 31 December 2019.

	2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Off-balance sheet items				
Gross carrying amount as at 1 January 2019	**1,467,365**	**13,954**	**58,483**	**1,539,802**
Transfers				
Transfer from Stage 1 to Stage 2	**(7,813)**	**6,589**	**-**	**(1,224)**
Transfer from Stage 2 to Stage 3				
New financial assets originated	**3,387**	**-**	**-**	**3,387**
Repayments during the year	**(428,561)**	**(2,502)**	**(1,100)**	**(432,163)**
Gross carrying amount as at 31 December 2019	**1,034,378**	**18,041**	**57,383**	**1,109,802**

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

xii. ***Gross carrying amount*** *(continued)*

	2018			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Gross carrying amount as at 1 January 2018	2,084,866	129,275	336,243	2,550,385
Transfers				
Transfer from Stage 1 to Stage 2	(235,522)	235,522	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(59,824)	59,824	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	317,239	52,948	77,566	447,753
Repayments during the year	(276,784)	(69,881)	-	(346,665)
Other movements	-	-	-	-
Reversal of no longer required impairment charges	-	-	676	676
Gross carrying amount as at 31 December 2018	1,889,799	288,040	474,310	2,652,149
Islamic financing and investing activities				
Gross carrying amount as at 1 January 2018	149,203	9,709	65,402	224,314
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	(167)	-	167	-
Transfer from Stage 2 to Stage 3	-	(489)	489	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	5,507	-	402	5,909
Other movements / Write offs	(22,556)	-	(1,783)	(24,339)
Reversal of no longer required impairment charges	-	(3,529)	-	(3,529)
Gross carrying amount as at 31 December 2018	131,987	5,691	64,677	202,355

6 Financial risk management *(continued)*

(b) ***Credit risk*** *(continued)*

xii. ***Gross carrying amount*** *(continued)*

	2018			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Cash and balances with the UAE Central Bank	29,344	-	-	29,344
Due from banks at investment grade	500,818	-	-	500,818
Financial assets measured at amortised cost at investment grade	1,837	-	-	1,837
	531,999	-	-	531,999

There were no transfers between the stages during the year ended 31 December 2018.

	2018			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Off-balance sheet items				
Gross carrying amount as at 1 January 2018	1,690,450	10,852	26,885	1,728,187
Transfers	-	-	-	-
Transfer from Stage 1 to Stage 2	(8,044)	8,044	-	-
Transfer from Stage 2 to Stage 3	(31,876)	-	31,876	-
New financial assets originated	-	-	-	-
Repayments during the year	(183,165)	(4,942)	(278)	(188,385)
Gross carrying amount as at 31 December 2018	1,467,365	13,954	58,483	1,539,802

(c) ***Liquidity risk***

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations from financial liabilities. The Group'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 Group's reputation. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters

6 Financial risk management *(continued)*

(c) ***Liquidity risk*** *(continued)*

i. *Analysis of financial assets and financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Group's assets and liabilities at 31 December 2019 based on contractual maturities.

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS					
Cash and balances with U.A.E. Central Bank	**93,533**	**-**	**6,000**	**-**	**99,533**
Due from banks and financial institutions	**411,409**	**5,000**	**-**	**-**	**416,409**
Loans and advances	**120,526**	**935,844**	**1,348,899**	**46,761**	**2,452,030**
Islamic financing and investing assets	**58,763**	**18,248**	**13,839**	**-**	**90,850**
Investments, including associate	**246,205**	**132,939**	**108,057**	**42,222**	**529,423**
Insurance receivables and contract assets	**-**	**104,294**	**6,971**	**-**	**111,265**
Other assets	**59,631**	**13,131**	**-**	**-**	**72,762**
Financial assets	**990,067**	**1,209,456**	**1,483,766**	**88,983**	**3,772,272**
Non-financial assets	**34,770**	**-**	**110,186**	**6,705**	**151,661**
Total assets	**1,024,837**	**1,209,456**	**1,593,952**	**95,688**	**3,923,933**
LIABILITIES					
Due to banks	**13,459**	**-**	**-**	**-**	**13,459**
Customers' deposits and margin accounts	**707,913**	**1,158,735**	**604,159**	**-**	**2,470,807**
Short term borrowings and medium-term loans	**76,433**	**171,670**	**25,000**	**-**	**273,103**
Unearned premiums	**94,890**	**-**	**-**	**-**	**94,890**
Gross claims outstanding	**58,851**	**-**	**-**	**-**	**58,851**
Lease liabilities			**8,374**		**8,374**
Other liabilities	**173,328**	**6,713**		**-**	**181,041**
Financial liabilities	**1,124,874**	**1,337,118**	**637,533**	**-**	**3,099,525**
Non-financial liabilities	**15,351**	**-**	**-**	**14,573**	**29,924**
Total liabilities	**1,140,225**	**1,337,118**	**637,533**	**14,573**	**3,129,449**
Off balance sheet					
Contingent liabilities	**901,191**	**195,634**	**12,977**	**-**	**1,109,802**
Commitments	**4,200**	**-**	**-**	**-**	**4,200**
Total	**905,391**	**195,634**	**12,977**	**-**	**1,114,002**

6 Financial risk management *(continued)*

(c) ***Liquidity risk*** *(continued)*

i. ***Analysis of financial assets and financial liabilities by remaining contractual maturities*** *(continued)*

The maturity profile of the Group's assets and liabilities at 31 December 2018 was as follows:

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS					
Cash and balances with U.A.E. Central Bank	23,344	-	6,000	-	29,344
Due from banks and financial institutions	500,434	-	-	-	500,434
Loans and advances	489,335	800,660	959,003	51,506	2,300,504
Islamic financing and investing assets	91,407	24,935	26,010	262	142,614
Investments, including associate	269,775	136,106	153,396	215,007	774,284
Insurance receivables and contract assets	-	87,609	6,853	-	94,462
Other assets	42,768	54,134	-	-	96,902
Financial assets	1,417,063	1,103,444	1,151,262	266,775	3,938,544
Non-financial assets	45,125	-	104,010	6,705	155,840
Total assets	1,462,188	1,103,444	1,255,272	273,480	4,094,384
LIABILITIES					
Due to banks	15,014	-	-	-	15,014
Customers' deposits and margin accounts	1,024,114	1,013,716	709,061	-	2,746,891
Short term borrowings and medium-term loans	31,933	79,001	100,001	-	210,935
Unearned premiums	88,933	-	-	-	88,933
Gross claims outstanding	63,352		=	-	63,352
Other liabilities	170,888	3,317	-	-	174,205
Financial liabilities	1,394,234	1,096,034	809,062	-	3,299,330
Non-financial liabilities	12,801	-	-	14,080	26,881
Total liabilities	1,407,035	1,096,034	809,062	14,080	3,326,211
Net liquidity surplus	55,153	7,410	446,210	259,400	768,173
Off balance sheet					
Contingent liabilities	1,266,528	211,692	61,348	234	1,539,802
Commitments	4,200	-	-	-	4,200
Total	1,270,728	211,692	61,348	234	1,544,002

6 Financial risk management *(continued)*

(c) ***Liquidity risk*** *(continued)*

i. ***Analysis of financial assets and financial liabilities by remaining contractual maturities*** *(continued)*

The amounts in the table above have been compiled as follows:

Type of financial instrument	**Basis on which amounts are compiled**
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments
Issued financial guarantee contracts and Contingent liabilities and commitments.	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(d) ***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, price of equity and fixed income securities.

i. ***Interest rate risk***

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

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

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in the interest rates, with all other variables held constant, of the Group's result for the year.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Group's profit for the year, based on the floating rate financial assets and liabilities held at 31 December 2019.

	Equity	
	+1% increase AED'000	**-1% decrease AED'000**
2019		
Change of 1%	**22,325**	**(19,717)**
Cash flow sensitivity	**22,325**	**(19,717)**
2018		
Change of 1%	17,021	(14,868)
Cash flow sensitivity	17,021	(14,868)

6 Financial risk management *(continued)*

(d) ***Market risk*** *(continued)*

ii. ***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and it is ensured these are maintained within established limits.

Foreign currency risk is limited since a significant proportion of the Group's transactions, monetary assets and liabilities are denominated in U.A.E. Dirham and U.S. Dollar. As the U.A.E. Dirham is pegged to the U.S. Dollar, balances in U.S. Dollar are not considered to represent significant currency risk. Exposure to other currencies is insignificant to the overall Group.

iii. ***Price risk***

Price risk is the risk that the fair values of equities and fixed income securities decrease as the result of changes in the levels of equity and fixed income indices and the value of individual instruments. The price risk exposure arises from the Group's investment portfolio.

The following table estimates the sensitivity to a possible change in equity and fixed income markets on the Group's consolidated statement of profit or loss. The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in the reference equity and fixed income benchmarks on the fair value of investments carried at fair value through profit or loss.

	Equity	
	+5% increase AED’000	**-5% decrease AED’000**
2019		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	**1,388**	**(1,388)**
Dubai Financial Market Index	**2,346**	**(2,346)**
Fixed income securities	**-**	**-**
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	**10,268**	**(10,268)**
Dubai Financial Market Index	**2,678**	**(2,678)**
Unquoted investments	**2,552**	**(2,552)**
Cash flow sensitivity	**19,232**	**(19,232)**

6 Financial risk management *(continued)*

(d) ***Market risk*** *(continued)*

iii. ***Price risk*** *(continued)*

	Equity +5% increase AED'000	Equity -5% decrease AED'000
2018		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	3,332	(3,332)
Dubai Financial Market Index	4,761	(4,761)
Fixed income securities	66	(66)
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	9,193	(9,193)
Dubai Financial Market Index	2,181	(2,181)
Unquoted investments	3,888	(3,888)
Cash flow sensitivity	23,421	(23,421)

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The effect of decreases in prices of equity and fixed income securities is expected to be equal and opposite to the effect of the increases shown above.

(e) ***Operational risk***

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Group cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding co potential risk, the Group is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorization and reconciliation procedures, staff training and robust assessment process. The processes are reviewed by risk management and internal audit on an ongoing basis.

(f) ***Insurance risk***

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

6 Financial risk management *(continued)*

(f) ***Insurance risk*** *(continued)*

In common with other insurers, in order to minimize financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Credit Risk related to insurance business

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk related to insurance business are:
- Re-insurers' share of insurance liabilities.
- Amounts due from reinsurers in respect of claims already paid.
- Amounts due from insurance contract holders.
- Amounts due from insurance intermediaries.
- Amounts due from banks for its balances and fixed deposits.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group’s exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counter party limits that are reviewed and approved by the management annually.

Re-insurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a re-insurer fails to pay a claim for any reason, the Group remains liable for the payment to the policy holder. The creditworthiness of re-insurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The Group maintains record of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on insurance receivables and subsequent write offs. Exposures to individual policy holders and groups of policy holders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policy holders, or homogenous groups of policy holders, a financial analysis equivalent to that conducted for re-insurers is carried out by the Group.

The carrying amount of financial assets recorded in the financial statements, which is net of expected credit loss, represents the Group's maximum exposure to credit risk for such receivables and liquid funds.

7 Fair value measurement

While the Group prepares its financial statements under the historical cost convention modified for measurement to fair value of investments carried at fair value and investment properties, in the opinion of management, the estimated carrying values and fair values of financial assets and liabilities, that are not carried at fair value in the financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently repriced. For impaired loans and advances, expected cash flows, including anticipated realization of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

Fair value hierarchy:

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

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

7 Fair value measurement *(continued)*

The Group uses widely recognized valuation models to determine the fair value of common and simple financial instruments and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2019:

	Date of Valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value					
Investment properties		**-**	**-**	**7,925**	**7,925**
At fair value through profit or loss					
Quoted equities		**85,987**	**-**	**-**	**85,987**
Quoted debt instruments		**-**	**-**	**-**	**-**
		85,987	**-**	**-**	**85,987**
At fair value through other comprehensive income					
Quoted equities		**296,944**	**-**	**-**	**296,944**
Unquoted equities		**-**	**9,271**	**41,772**	**51,043**
Investment in managed funds		**-**	**5,354**	**-**	**5,354**
		296,944	**14,625**	**41,772**	**353,341**
Assets for which fair value is disclosed					
Investment carried at amortized cost		**-**	**-**	**-**	**-**

7 Fair value measurement *(continued)*

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

	Date of Valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value					
Investment properties	31 December 2018	-	-	79,478	79,478
At fair value through profit or loss					
Quoted equities	31 December 2018	161,384	-	-	161,384
Quoted debt instruments	31 December 2018	-	-	-	-
		161,384	-	-	161,384

	Date of Valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At fair value through other comprehensive income					
Quoted equities	31 December 2018	454,925	-	-	454,925
Unquoted equities	31 December 2018	-	12,036	87,281	99,317
Investment in managed funds	31 December 2018	-	6,336	-	6,336
		454,925	18,372	87,281	560,578
Assets for which fair value is disclosed					
Investment carried at amortized cost		-	1,837	-	1,837

The fair values of the Group's financial assets and liabilities that are carried at amortized cost approximate to their carrying amount as disclosed in these financial statements. For the long-term financial assets and liabilities, management does not expect to have a material difference between the carrying amount and the fair value.

Investments carried at fair value through profit or loss

Investments carried at fair value through profit and loss are listed equities and debt instruments in local as well as international exchanges. Valuations are based on market prices as quoted in the exchange.

7 Fair value measurement *(continued)*

Investments carried at fair value through other comprehensive income

Investments carried at fair value through other comprehensive income, the revaluation gains/losses of which are recognized through equity, comprise long-term strategic investments in listed and unlisted equities, Tier 1 Capital instruments and private equity funds. Listed equity and Tier 1 Capital instruments valuations are based on market prices as quoted in the exchange while funds are valued on the basis of net asset value statements received from fund managers. For unquoted equities, the financial statements provide the valuations of these investments, which are arrived at primarily by using Price Earning Multiple basis valuation. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility and price earnings multiples. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

Following is the description of the significant unobservable inputs used in the valuation of unquoted equities categorized under level 3 fair value measurement.

	Valuation technique	**Significant unobservable inputs to valuation**	**Range (Weighted average)**	**Sensitivity of the input to fair value**
Unquoted equities	Price Earning Multiple Valuation Basis	PE Multiple	10 – 15	Increase / (decrease) in the PE Multiples by 1 would result in increase / (decrease) in fair value by AED 300 thousand.

PE Multiple is derived from comparable companies.

The effect of unobservable inputs on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumption could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

	Effect on OCI	
	+1% Favourable AED'000	**-1% (Unfavourable) AED'000**
31 December 2019		
Unquoted equities at fair value through OCI	**554**	**(554)**
Cash flow sensitivity	**554**	**(554)**
31 December 2018		
Unquoted equities at fair value through OCI	993	(993)
Cash flow sensitivity	993	(993)

7 Fair value measurement *(continued)*

Transfers between categories

During the period, there were no transfers between Level 1 and Level 2 fair value measurements. The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	Unquoted equities at fair value through other comprehensive income AED'000 2019	Unquoted equities at fair value through other comprehensive income AED'000 2018
Balance at 1 January	**87,281**	83,095
Gain / (Loss) in OCI	**(5,984)**	4,186
Purchases	**-**	-
Disposals	**(39,525)**	-
Transfer into Level 3	**-**	-
Transfer out of Level 3	**-**	-
Balance at 31 December	**41,772**	87,281

7 Fair value measurement *(continued)*

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized for 31 December 2019.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Total carrying amount AED'000
Assets					
Cash balances	**16,134**	**-**	**-**	**16,134**	**16,134**
Due from banks	**2,452,030**	**-**	**-**	**2,452,030**	**2,452,030**
Loans and advances	**499,808**	**-**	**-**	**499,808**	**499,808**
Islamic financing and investing assets	**90,850**	**-**	**-**	**90,850**	**90,850**
Investment in associates	**90,095**	**-**	**-**	**90,095**	**90,095**
Insurance receivables and contract assets	**111,265**	**-**	**-**	**111,265**	**111,265**
Interest receivable and other assets	**107,532**	**-**	**-**	**107,532**	**107,532**
	3,367,714	**-**	**-**	**3,367,714**	**3,367,714**
Liabilities					
Customers' deposits and margin accounts	**2,470,807**	**-**	**-**	**2,470,807**	**2,470,807**
Due to banks and other financial institutions	**13,459**	**-**	**-**	**13,459**	**13,459**
Short term borrowings	**173,100**	**-**	**-**	**173,100**	**173,100**
Medium term loan	**100,003**	**-**	**-**	**100,003**	**100,003**
Unearned premiums	**94,890**	**-**	**-**	**94,890**	**94,890**
Gross claims outstanding	**58,851**	**-**	**-**	**58,851**	**58,851**
Lease liabilities	**8,374**			**8,374**	**8,374**
Interest payable and other liabilities	**195,392**	**-**	**-**	**195,392**	**195,392**
Provision for employees' end of service benefits	**14,573**	**-**	**-**	**14,573**	**14,573**
	3,129,449	**-**	**-**	**3,129,449**	**3,129,449**

7 Fair value measurement *(continued)*

Financial instruments not measured at fair value *(continued)*

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized for 31 December 2018.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Total carrying amount AED'000
Assets					
Cash balances	17,599	-	-	17,599	17,599
Due from banks	512,179	-	-	512,179	512,179
Loans and advances	2,300,504	-	-	2,300,504	2,300,504
Islamic financing and investing assets	142,614	-	-	142,614	142,614
Investment in associates	50,485	-	-	50,485	50,485
Insurance receivables and contract assets	94,462	-	-	94,462	94,462
Interest receivable and other assets	142,027	-	-	142,027	142,027
	3,259,870	-	-	3,259,870	3,259,870
Liabilities					
Customers' deposits and margin accounts	2,746,891	-	-	2,746,891	2,746,891
Due to banks and other financial institutions	15,014	-	-	15,014	15,014
Short term borrowings	27,600	-	-	27,600	27,600
Medium term loan	183,335	-	-	183,335	183,335
Unearned premiums	88,938	-	-	88,938	88,938
Gross claims outstanding	63,352	-	-	63,352	63,352
Interest payable and other liabilities	187,001	-	-	187,001	187,001
Provision for employees' end of service benefits	14,080	-	-	14,080	14,080
	3,326,211	-	-	3,326,211	3,326,211

8 Capital adequacy

Capital management

The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, to maximize shareholders' value and to ensure that the Group complies with externally imposed capital requirements.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

	2019 AED'000	2018 AED'000
Total capital base	**820,670**	761,468
Risk weighted assets:		
Statement of financial position items	**3,257,602**	3,345,886
Off statement financial position exposures	**268,045**	399,786
Total risk weighted assets	**3,525,647**	3,745,672
Total assets ratio (%)	**23.28%**	20.33%

9 Subsidiaries and partly owned subsidiaries

The consolidated financial statements comprise the financial statements of the Company and the following subsidiaries:

Name of subsidiary	Country of incorporation	Ownership interest %		Principal activity
		2019	2018	
Islamic Finance House P.J.S.C.	U.A.E.	**100**	100	Islamic financing services
Insurance House P.S.C.	U.A.E.	**45.15**	45.15	Insurance
Finance House Securities Co L.L.C.	U.A.E.	**70**	70	Brokerage
CAPM Investment P.J.S	U.A.E.	**100**	100	Investment and asset management
F.H. Services	U.A.E.	**100**	-	Services

9 Subsidiaries and partly owned subsidiaries *(continued)*

The following table illustrates the summarized financial information of subsidiaries with material non-controlling interests. This information is based on amounts before inter-company eliminations:

	Insurance House P.S.C.		**Finance House Securities Co. LLC**		**Total**	
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000	**2019 AED'000**	2018 AED'000
Non-controlling interests %	**54.39%**	54.85	**30**	30		
Accumulated balance of material non-controlling interests	**64,146**	52,312	**23,636**	23,576	**87,782**	75,888
Subsidiaries' statement of financial position						
Total assets	**334,354**	304,468	**209,488**	175,117	**543,842**	479,585
Total liabilities	**(199,213)**	(204,640)	**(128,088)**	(93,916)	**(327,301)**	(298,556)
Total equity	**135,141**	99,828	**81,400**	81,201	**216,541**	181,029
Subsidiaries' income statement						
Net revenue	**59,967**	50,112	**7,916**	8,964	**67,883**	59,076
Net profit/(loss) for the year	**16,166**	10,643	**199**	589	**16,365**	11,232
Net profit/(loss) for the year allocated to non-controlling interest	**8,793**	5,838	**60**	177	**8,853**	6,015
Total comprehensive income/(loss) for the year	**20,199**	7,433	**199**	589	**20,398**	8,022
Total comprehensive income/(loss) allocated to non-controlling interest	**10,986**	4,077	**60**	177	**11,046**	4,254
Subsidiaries' cash flows						
Operating	**(14,773)**	23,157	**(17,402)**	37,773	**(32, 175)**	60,930
Investing	**17,902**	(73,250)	**(312)**	(65)	**17,590**	(73,315)
Financing	**12,849**	-	**21,352**	(37,727)	**34,201**	(37,727)
Net (decrease)/increase in cash and cash equivalents	**15,978**	(50,093)	**3,638**	(19)	**19,616**	(50,112)

10 Segment information

For management purposes, the Group is organized into five major business segments:

(i) Commercial and retail financing, which principally provides loans and other credit facilities for institutional and individual customers.

(ii) Investment, which involves the management of the Group's investment portfolio and its treasury activities.

(iii) Islamic financing and investing, which involves one of the Group's subsidiaries principally providing investment, consumer and commercial financing and other related services based on Islamic Sharia's rules and principles.

(iv) Insurance, which involves one of the Group's subsidiaries providing non-life insurance services.

(v) Brokerage, which involves one of the Group's subsidiaries providing brokerage services.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

10 Segment information *(continued)*

Information regarding the Group's reportable segments is presented below:

31 December 2019	Commercial and retail financing AED'000	Investment AED'000	Islamic financing and investing AED'000	Brokerage AED'000	Insurance AED'000	Unallocated AED'000	Total AED'000
Interest income and income from Islamic financing and investing assets	210,117	23,701	14,927	7,874	3,340	-	259,959
Interest expense and profit distributable to depositors	(74,663)	(7,375)	(1,240)	(2,343)	-	-	(85,621)
Net fee and commission income	39,380	-	2,122	1,543	-	-	43,045
Net income from investment	-	14,279	-	-	-	-	14,279
Net insurance premium earned	-	-	-	-	147,139	-	147,139
Net commission paid	-	-	-	-	(11,698)	-	(11,698)
Net insurance claims incurred	-	-	-	-	(84,411)	-	(84,411)
Other underwriting income	-	-	-	-	(5,445)	-	(5,445)
Net insurance income	-	-	-	-	45,585	-	45,585
Share of results of an associate	-	(365)	-	-	-	-	(365)
Other operating income	18,575	38	-	842	1,572	-	21,027
Total segment revenue	193,409	30,278	15,809	7,916	96,082	-	343,494
Depreciation of property, fixtures and equipment	-	(304)	(551)	(300)	(1,829)	(13,398)	(16,382)
Other expenses and charges	(41,454)	(10,593)	(10,486)	(7,417)	(41,972)	(76,702)	(188,624)
Total expenses and other charges							
Profit for the year before impairment	151,955	19,381	4,772	199	6,696	(90,100)	92,903
Net impairment charges on loans and advances	(69,258)	-	-	-	-	-	(69,258)
Net impairment charges on Islamic financing and investing assets	-	-	(1,200)	-	-	-	(1,200)
Net profit for the year	82,697	19,381	3,572	199	6,696	(90,100)	22,445
Segmental assets	2,316,190	919,668	144,233	209,488	334,354	-	3,923,933
Segmental liabilities	2,288,924	457,876	55,348	128,088	199,213	-	3,129,449
Additions to non-current assets during the year	-	292	45	299	539	1,890	3,065

10 Segment information *(continued)*

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Information regarding the Group's reportable segments is presented below:

31 December 2018	Commercial and retail financing AED'000	Investment AED'000	Islamic financing and investing AED'000	Brokerage AED'000	Insurance AED'000	Unallocated AED'000	Total AED'000
Interest income and income from Islamic financing and investing assets	213,290	16,097	21,163	9,597	1,396	-	261,543
Interest expense and profit distributable to depositors	(66,638)	(13,633)	(1,994)	(3,343)	-	-	(85,608)
Net income from perpetual instruments	-	19,017	-	-	-	-	19,017
Net fee and commission income	40,856	-	3,676	2,216	-	-	46,748
Net insurance premium earned	-	-	-	-	141,399	-	141,399
Net commission paid	-	-	-	-	(11,323)	-	(11,323)
Net insurance claims incurred	-	-	-	-	(84,443)	-	(84,443)
Other underwriting income	-	-	-	-	(6,860)	-	(6,860)
Net insurance income	-	-	-	-	38,773	-	38,773
Net investment income	-	(407)	-	-	-	-	(407)
Share of results of an associate	-	(1,235)	-	-	-	-	(1,235)
Other operating income	20,064	(1,968)	-	494	3,037	-	21,627
Total segment revenue	207,572	17,871	22,845	8,964	81,979	-	339,231
Depreciation of property, fixtures and equipment	-	(124)	(752)	(516)	(1,161)	(6,148)	(8,701)
Other expenses and charges	(62,758)	(9,926)	(11,500)	(7,859)	(38,308)	(63,405)	(193,756)
Total expenses and other charges	(62,758)	(10,050)	(12,252)	(8,375)	(39,469)	(69,553)	(202,457)
Profit for the year before impairment	144,814	7,821	10,593	589	3,737	(69,553)	98,001
Net impairment charges on loans and advances	(75,848)	-	-	-	-	-	(75,848)
Net impairment charges on Islamic financing and investing assets	-	-	(4,313)	-	-	-	(4,313)
Net profit for the year	68,966	7,821	6,280	589	3,737	(69,553)	17,840
Segmental assets	2,317,286	1,114,750	182,763	175,117	304,468	-	4,094,384
Segmental liabilities	2,288,271	640,593	98,791	93,916	204,640	-	3,326,211
Additions to non-current assets during the year	-	80	62	14	1,233	17,954	19,343

10 Segment information *(continued)*

(a) Products and services from which reportable segments derive their revenues

Revenue reported above represents revenue generated from external customers. The inter-segment revenues and expenses have been eliminated in full.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

(b) Geographical information

The Group primarily operates in the U.A.E. (country of domicile).

(c) Information about major customers

There is no single customer accounting for more than 10% of the Group's revenues from external customers.

11 Net interest income and income from Islamic financing and investing assets

	2019 AED'000	2018 AED'000
Loans and advances	**223,597**	227,440
Income from Islamic financing and investing assets	**9,978**	17,267
Due from banks	**14,783**	15,085
Income from perpetual investments	**11,601**	19,017
Others	**-**	1,751
Interest income and income from Islamic financing and investing assets	**259,959**	280,560
Customers' deposits and margin accounts	**(74,663)**	(66,638)
Due to banks and other financial institutions	**(9,718)**	(16,976)
Profit distributable to depositors	**(1,240)**	(1,994)
Interest expense and profit distributable to depositors	**(85,621)**	(85,608)
Net interest income and income from Islamic financing and investing assets	**174,338**	194,952

No interest or profit income is recognized on impaired loans and advances or on impaired Islamic financing and investing assets.

12 Net fee and commission income

	2019 AED'000	2018 AED'000
Fee and commission income from		
Credit cards related fees	**22,654**	29,828
Corporate finance fees	**11,745**	16,902
Letters of credit and letters of guarantees	**11,245**	12,199
Other commission income	**8,041**	9,224
	53,685	68,153
Fee expense on		
Credit cards related expenses	**(9,844)**	(18,432)
Others	**(796)**	(2,973)
Net fee and commission income	**43,045**	46,748

13 Net investment income

	2019 AED'000	2018 AED'000
Investments carried at fair value through profit or loss		
(Loss) / profit on disposal	**(25,419)**	3,531
Change in fair value	**16,051**	(31,498)
Dividends	**3,234**	8,113
Net loss from investments carried at fair value through profit or loss	**(6,134)**	(19,854)
Income from investments carried at fair value through other comprehensive income		
Dividends	**20,413**	19,447
Net income from investments	**14,279**	(407)

14 Other operating income, net

	2019 AED'000	2018 AED'000
Rental income from investment property	**507**	6,553
Change in fair value of investment property	**(157)**	(2,592)
Collection from written off customers	**4,733**	3,364
Others	**15,944**	14,300
	21,027	21,625

15 Salaries and employees related expenses

	2019 AED'000	2018 AED'000
Basic salaries	**37,499**	39,812
Cost of living allowance	**26,151**	29,040
Employees outsourced	**26,458**	20,102
Housing allowance	**15,529**	15,453
Gratuity	**2,340**	2,830
Others	**34,813**	37,764
	142,790	145,001

16 General and administrative expenses

	2019 AED'000	2018 AED'000
Lease expense	**674**	8,643
Communication expenses	**4,376**	5,568
Professional fees	**5,090**	6,614
Repair and maintenance	**3,452**	2,833
Advertising, maintenance and other expenses	**31,924**	24,836
	45,516	48,494

17 Basic and diluted earnings per share

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. As at 31 December 2019, the Group has not issued any instruments which dilutive impact on earnings per share would have when converted or exercised.

17 Basic and diluted earnings per share *(continued)*

The calculation of the basic and diluted earnings per share is based on the following data:

	2019 AED'000	2018 AED'000
Profit for the period attributable to equity holders of the parent	**13,592**	11,825
Less: Tier 1 Sukuk coupon paid	**(21,077)**	(22,500)
Less: Proposed directors' remuneration	**(1,223)**	(1,064)
	(8,708)	(11,739)
Number of ordinary shares in issue	**310,050**	310,050
Less: Treasury shares	**(9,400)**	(9,400)
Less: Employees' share-based payment scheme	**(1,750)**	(1,750)
Weighted average number of shares	**298,900**	298,900
Earnings per share (AED)	**(0.03)**	(0.04)

18 *Cash and cash equivalents*

	2019 AED'000	2018 AED'000
Cash balances		
Cash on hand	**10,134**	11,599
Restricted cash balances*	**6,000**	6,000
	16,134	17,599
Due from banks with original maturities of less than three months		
Placements with banks	**121,789**	201,001
Call accounts	**207,637**	167,264
Current and demand accounts	**86,983**	132,169
Balance with UAE Central Bank	**83,399**	11,745
	499,808	512,179
Due to banks and other financial institutions with original maturity of less than three months	**(13,459)**	(15,014)
Other restricted cash balances*	**(6,000)**	(6,000)
Net cash and cash equivalents	**496,483**	508,764

*Restricted cash represents deposits with insurance authority amounting to AED 6,000 thousand (*2018: AED 6,000 thousand*).

18 Cash and cash equivalents *(continued)*

Analysis of changes in financing during the year

Reconciliation of movement of liabilities to cashflows arising from financing activities

	Short Term Borrowings AED'000	Medium Term Loan AED'000	Retained Earnings AED'000	Tier 1 Sukuk AED'000	Proposed Directors' Remuneration AED'000	Non Controlling Interest AED'000
Restated balance at 1 January 2018	266,410	120,834	(66,361)	283,550	3,090	72,432
Changes from financing cashflows						
Repayments of short-term borrowings	(238,810)	-	-	-	-	-
Repayments of medium-term loans	-	(87,499)	-	-	-	-
Proceeds from short term borrowings	-	150,000	-	(2,050)	-	-
Movement in Tier 1 Sukuk	-	-	-	-		-
Tier 1 Sukuk coupon paid	-	-	(22,500)	-	-	-
Cash dividend paid	-	-	(15,141)	-	-	-
Change in non-controlling interest	-	-	-	-	-	(1,388)
Director's remuneration paid	-	-	-	-	(3,090)	-
Total changes from financing cashflows	(238,810)	62,501	(37,641)	(2,050)	(3,090)	(1,388)
Total equity related other changes	-	-	124,148	-	1,064	4,844
Balance at 31 December 2018	27,600	183,335	20,146	281,500	1,064	75,888

18 Cash and cash equivalents *(continued)*

Analysis of changes in financing during the year *(continued)*

Reconciliation of movement of liabilities to cashflows arising from financing activities

	Short Term Borrowings AED'000	Medium Term Loan AED'000	Lease Liabilities AED'000	Retained Earnings AED'000	Tier 1 Sukuks AED'000	Tier 1 Bonds AED'000	Proposed Directors' Remuneration AED'000	Non Controlling Interest AED'000
Restated balance at 1 January 2019	**27,600**	**183,355**	**-**	**20,146**	**281,500**	**-**	**1,064**	**75,888**
Changes from financing cashflows								
Repayments of short-term borrowings	**(14,500)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Repayments of medium-term loans	**-**	**(83,332)**	**-**	**-**	**-**	**-**	**-**	**-**
Proceeds from short term borrowings	**160,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movement in Tier 1 Sukuk	**-**	**-**	**-**	**-**	**(1,100)**	**-**	**-**	**-**
Proceeds from Tier 1 Bonds	**-**	**-**	**-**	**-**	**-**	**15,000**	**-**	**-**
Tier 1 Sukuk coupon paid	**-**	**-**	**-**	**(21,076)**	**-**	**-**	**-**	**-**
Tier 1 Bonds dividend paid	**-**	**-**	**-**	**(962)**	**-**	**-**	**-**	**-**
Lease liabilities paid	**-**	**-**	**8,374**	**-**	**-**	**-**	**-**	**-**
Cash dividend paid	**-**	**-**	**-**	**(8,873)**	**-**	**-**	**-**	**-**
Change in non-controlling interest								
Director's remuneration paid	**-**	**-**	**-**	**-**	**-**	**-**	**(1,064)**	**-**
Total changes from financing cashflows	**145,500**	**(83,332)**	**8,374**	**(30,911)**	**(1,100)**	**15,000**	**(1,064)**	**-**
Total equity related other changes	**-**	**-**	**-**	**26,655**	**-**	**-**	**1,223**	**11,894**
Balance at 31 December 2019	**173,100**	**100,003**	**8,374**	**15,890**	**280,400**	**15,000**	**1,223**	**87,782**

19 Investments

	At fair value through other comprehensive income AED'000	At fair value through profit or loss AED'000	At amortized cost AED'000	Total AED'000
2019				
Equity instruments:				
- Quoted *	**296,944**	**85,987**	**-**	**382,931**
- Unquoted	**51,043**	**-**	**-**	**51,043**
Unquoted investment in managed funds	**5,354**	**-**	**-**	**5,354**
	353,341	**85,987**	**-**	**439,328**
Within UAE	**301,738**	**85,987**	**-**	**387,725**
Outside UAE	**51,603**	**-**	**-**	**51,603**
	353,341	**85,987**	**-**	**439,328**
2018				
Equity instruments:				
- Quoted *	454,925	161,384	-	616,309
- Unquoted	99,317	-	-	99,317
Debt instruments:				
- Unquoted investments	-	-	1,837	1,837
Unquoted investment in managed funds	6,336	-	-	6,336
	560,578	161,384	1,837	723,799
Within UAE	360,354	161,384	-	521,738
Outside UAE	200,224	-	1,837	202,061
	560,578	161,384	1,837	723,799

19 Investments *(continued)*

The Group holds investments in Tier 1 perpetual instruments which are classified under quoted equity instruments and unquoted equity instruments amounting to AED 37,428 thousand *(2018: AED 220,853 thousand)* and AED Nil thousand *(2018: AED 20,000 thousand)*, respectively. These instruments carry an average coupon interest/profit rate between 5.5% p.a - 8.25% p.a *(2018: 5.5% p.a - 8.25% p.a).*

* Included in this balance investments in shares amounting to AED 83,152 thousand in the name of related parties who has given the parent company full control to act as owner of these shares.

During the year, the Group has redeemed investments on maturity carried at amortized cost of AED 1,837 thousand *(2018: AED 81,654 thousand).*

The FVOCI designation was made because the investments are expected to be held for the long term for strategic purposes.

20 Loans and advances

	2019 **AED'000**	2018 AED'000
Commercial loans		
Commercial overdraft	**470,332**	403,440
Trust Receipts	**64,557**	32,792
Bills and discounts	**41,705**	53,454
Mezzanine finance	**11,307**	11,209
Advances against documents under LC	**6,902**	119,116
Auto loan	**2,463**	3,861
Clean facility	**1,180**	1,180
Other commercial advances	**1,740,402**	1,477,069
	2,338,848	2,102,121
Retail finance		
Car loans	**3,146**	3,187
Executive Finance	**169,525**	170,690
Staff loans	**5,703**	6,074
Credit card advances and settlement plans	**285,032**	276,586
Payday Overdraft	**41,491**	66,250
SME loans	**23,328**	26,047
Others	**1,127**	1,194
	529,352	550,028
Gross loans and advances	**2,868,200**	2,652,149
Less: Allowance for impairment	**(416,170)**	(351,645)
Loans and advances	**2,452,030**	2,300,504

20 Loans and advances *(continued)*

The movement in the allowance for impairment during the period/year is as follows:

	2019 **AED'000**	2018 AED'000
At 1 January	**351,645**	214,584
Changes on initial application of IFRS 9	-	61,877
Balance / restated balance at 1 January	**351,645**	276,461
Impairment charges for the year	**69,258**	75,848
Reversal of no longer required impairment charges	**(4,733)**	(664)
At 31 December	**416,170**	351,645

The allowance for impairment includes a specific provision of AED 385.8 million (*2018 AED 312.1* million) for stage 3 loans of the Group.

In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances 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.

21 Islamic financing and investing assets

	2019 **AED'000**	2018 AED'000
Commodity Murabaha	**88,492**	115,530
Covered card and drawings	**49,354**	67,503
Ijarah	**10,008**	14,284
Purchase and lease back	**1,000**	2,094
Others	**2,937**	2,944
Gross Islamic financing and investing assets	**151,791**	202,355
Less: Allowance for impairment	**(60,941)**	(59,741)
Islamic financing and investing assets	**90,850**	142,614

21 Islamic financing and investing assets *(continued)*

Islamic financing and investing assets are stated net of allowance for impairment. The movement in the allowance during the period/year is as follows:

	2019 AED'000	2018 AED'000
At 1 January	**59,741**	50,944
Changes on initial application of IFRS 9	-	4,484
Balance / restated balance at 1 January	**59,741**	55,428
Charge for the year	**1,200**	4,313
At 31 December	**60,941**	59,741

The Allowance for impairment includes a specific provision of AED 58.8 million (*2018 AED 56.6* million) for stage 3 Islamic financing and investing assets of the Group.

The gross Ijara and purchase and leaseback and the related present value of minimum Ijara and purchase and leaseback payments are as follows:

	2019 AED'000	2018 AED'000
Gross Ijara and purchase and lease-back		
Less than one year	**5,155**	6,538
Between one and three years	**6,047**	8,019
Between three and five years	**1,778**	4,252
More than five years	-	263
Less: deferred income	**12,980**	19,072
Net Ijara and purchase and lease-back	**(1,972)**	(2,694)
	11,008	16,378

Present value of minimum Ijara and purchase and leaseback payments

	2019 AED'000	2018 AED'000
Less than one year	**3,936**	5,441
Between one and three years	**5,128**	6,734
Between three and five years	**1,944**	3,958
More than five years	-	245
	11,008	16,378

22 Investment in equity accounted investee

The Group has the following investment in an associate

	Country of incorporation	Percentage of holding		Principal activity
		2019	2018	
Mainland Management L.L.C.	U.A.E	**33.33%**	33.33%	Hospitality management services

Movement in investment in an associate is as follows:

	2019 AED'000	2018 AED'000
At 1 January	**50,485**	51,720
Share of results for the year	**(365)**	(1,235)
Addition during the year	**39,975**	-
At 31 December	**90,095**	50,485

Summarized financial information of the associate is set out below:

	2019 AED'000	2018 AED'000
Associate's statement of financial position		
Assets	**241,798**	202,433
Liabilities	**(51,293)**	(50,928)
Net assets	**190,505**	151,505
Group's share of net assets	**90,152**	50,502
Carrying amount of investment in an associate	**90,095**	50,485
Income statement		
Revenue	**31,285**	27,699
(Loss)/profit for the year	**(1,095)**	(3,705)
Group's share of results for the year	**(365)**	(1,235)

23 Interest receivable and other assets

	2019 AED'000	2018 AED'000
Accounts receivable *	**34,653**	40,381
Less: impairment allowance	**(1,233)**	(5,712)
	33,420	34,669
Prepayments	**29,418**	39,773
Interest receivable and profit receivable	**17,659**	20,786
Advance for investments	**5,352**	5,352
Other assets	**21,683**	41,447
	107,532	142,027

* In 2017, the Company has entered into a sale and purchase agreement with Infosec Ventures INC (Infosec) and Paramount Computer Systems FZ LLC in respect of the sale of the Company's share in Paramount Computer System. Accounts receivable includes an amount of AED 16,300 thousand *(2018: AED 19,500 thousand)* receivable from Infosec. It was agreed that payments will be made over 5 years in equal instalments commencing one year after the date of signing the agreement (i.e. AED 3,900 thousand each year).

24 Insurance receivable and contract assets

	2019 AED'000	2018 AED'000
Insurance receivables	**65,156**	52,028
Re-insurance contract assets	**46,109**	42,434
	111,265	94,462

Insurance Receivables

	2019 AED'000	2018 AED'000
Due from policyholders	**44,483**	28,610
Due from brokers and agencies	**15,600**	22,667
Due from insurance and reinsurance companies	**9,317**	4,284
Due from related parties	**2,757**	3,077
	72,157	58,638
Expected credit loss	**(7,123)**	(6,663)
	65,034	51,975
Refundable deposits and other advances	**122**	53
Premium and insurance balances receivables – net	**65,156**	52,028

24 Insurance receivable and contract assets *(continued)*

Reinsurance share of outstanding claims

	2019 **AED'000**	2018 AED'000
Unearned premiums reserve	**23,878**	19,055
Claims under settlement reserves	**15,732**	16,599
Incurred but not reported claims reserve	**6,499**	6,780
	46,109	42,434

25 Property, fixtures and equipment

	Freehold Land AED'000	Building AED'000	Furniture Fixtures and equipment AED'000	Motor vehicles AED'000	Computer hardware and software AED'000	Total AED'000
Cost:						
At 1 January 2018	-	-	34,023	3,528	35,290	72,841
Additions during the year	-	-	3,266	697	15,380	19,343
Disposals	-	-	(308)	-	(7)	(315)
At 31 December 2018	-	-	36,981	4,225	50,663	91,869
At 1 January 2019	-	-	**36,981**	**4,225**	**50,663**	**91,869**
Changes on initial application of IFRS 16	-	**16,066**	-	-	-	**16,066**
Restated balance at 1 January 2019	-	**16,066**	**36,981**	**4,225**	**50,663**	**107,935**
Additions during the year	-		**461**	-	**2,604**	**3,065**
Disposals	-	-	**(20)**	**(374)**	**(55)**	**(449)**
Transfer from investment property	**20,000**	**55,000**	-	-	-	**75,000**
At 31 December 2019	**20,000**	**71,066**	**37,422**	**3,851**	**53,212**	**185,551**

25 Property, fixtures and equipment *(continued)*

	Freehold Land AED'000	Building AED'000	Furniture Fixtures and equipment AED'000	Motor vehicles AED'000	Computer hardware and software AED'000	Total AED'000
Accumulated depreciation						
At 1 January 2018	-	-	28,725	1,557	28,669	58,951
Charge for the year	-	-	3,896	399	4,406	8,701
Release on disposals	-	-	(308)	-	(7)	(315)
At 31 December 2018	-	-	32,313	1,956	33,068	67,337
At 1 January 2019	-	-	32,313	1,956	33,068	67,337
Changes on initial application of IFRS 16	-	-	-	-	-	-
Restated balance at 1 January 2019	-	-	**32,313**	**1,956**	**33,068**	**67,337**
Charge for the year	-	**7,141**	**2,691**	**372**	**6,178**	**16,382**
Release on disposal	-	-	**(20)**	**(374)**	**(35)**	**(429)**
At 31 December 2019	**-**	**7,141**	**34,984**	**1,954**	**39,211**	**83,290**
Net book value:						
At 31 December 2019	**20,000**	**63,925**	**2,438**	**1,897**	**14,001**	**102,261**
At 31 December 2018	-	-	4,668	2,269	17,595	24,532

26 Intangibles

	License AED'000	**Goodwill AED'000**	**Total AED'000**
2019			
At 1 January	**-**	**6,705**	**6,705**
Amortization charges during the year	-	-	-
At 31 December	**-**	**6,705**	**6,705**
2018			
Carrying value:			
At 1 January	261	6,705	6,966
Amortization charges during the year	(261)	-	(261)
At 31 December	-	6,705	6,705

License

License represents the amount paid by the Group to acquire an existing investment banking license issued by the Central Bank of UAE.

Goodwill

Goodwill acquired through business combinations relates to Islamic Finance House P.J.S.C.

Impairment test of goodwill

The Group performs impairment testing of the goodwill annually on 31 December.

Goodwill has been allocated to the subsidiary as a cash-generating unit. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the year, the Group has performed a goodwill impairment review based on a forecast of the subsidiary's cash flows. The recoverable amount of the cash-generating unit was estimated on the basis of its value in use, which is determined by discounting future cash flows from the continuing operation of the cash generating unit. The discount rate applied to the cash flow projections is 10 to 12% and the growth rate used to extrapolate the cash flows beyond the five-year period is 3%. Based on the results of the goodwill impairment assessment the Group has concluded that the recoverable amount of the cash-generating unit is higher than its carrying value.

27 Investment properties

	2019 **AED'000**	2018 AED'000
At 1 January	**79,478**	82,070
Acquisition of investment properties in respect of settlement of a loan	**3,604**	-
Reclassified to Property, fixtures and equipment	**(75,000)**	-
Change in fair value	**(157)**	(2,592)
At 31 December	**7,925**	79,478

Investment properties comprise: 3 apartments located in Dubai Business Bay with a fair market value of AED 4,425 thousand *(2018: AED 4,478 thousand)* and a villa in Green Community, Dubai with a fair market value of AED 3,500 thousand *(2018: Nil)*

An independent valuer for the valuation of this investment property adopts the comparable market value method in valuing the investment properties. This method calculates the value of the property by taking the market valuation of comparable properties, which reflects market sentiment and situation. The prime location, maintenance and occupancy levels are also considered.

The net rental income recognised is AED 465 thousand *(2018: AED 6,554 thousand)* and is recognised in the consolidated income statement under 'other operating income'.

The fair value measurement for all the investment properties has been categorized as a level 3 fair value based on the inputs to the valuation technique used.

28 Customers' deposits and margin accounts

	2019 **AED'000**	2018 AED'000
Call and demand deposits	**176,272**	219,381
Time deposits	**1,743,067**	1,785,555
Wakala deposits	**11,075**	35,045
	1,930,414	2,039,981
Margin accounts	**540,393**	706,910
	2,470,807	2,746,891

Analysis of customers' deposits by sector is as follows**:**

By type:		
Government	**1,047,979**	976,732
Corporate	**1,422,828**	1,770,159
	2,470,807	2,746,891

28 Customers' deposits and margin accounts *(continued)*

Margin accounts represent cash margins collected from corporate customers against unfunded and funded credit facilities extended to them in the normal course of business.

Customers' deposits and margin accounts carry interest/profit rates ranging from Nil to 4.25% p.a *(2018: Nil to 4.5% p.a).*

29 Short term borrowings and medium-term loans

Short-term borrowings

	2019 **AED'000**	2018 AED'000
At 1 January	**27,600**	266,410
Proceeds received	**160,000**	-
Repayments	**(14,500)**	(238,810)
At 31 December	**173,100**	27,600

These short-term borrowings carry variable interest rates ranging from 4.10% p.a to 6.00% p.a *(2018: 4.25% p.a to 6.34% p.a).*

Medium term loans

	2019 **AED'000**	2018 AED'000
At 1 January	**183,335**	120,834
Proceeds received	-	150,000
Repayments	**(83,332)**	(87,499)
At 31 December	**100,003**	183,335

Obtained In	**Matures in**	**Approved facility line AED '000**	**Repayment schedule**	**Interest rate**
24 May 2017	2020	100,000	11 equal instalments of AED 8,333 thousand plus interest and one final instalment (12^{th}) covering the residual utilisation amount plus interest.	3 months EIBOR + 2.10% p.a.
21 June 2018	2021	150,000	5 equal instalments of AED 25,000 thousand plus interest and one final instalment (6^{th}) covering the residual utilisation amount plus interest.	3 months EIBOR + 2.10% p.a.

No financial covenants attached to short-term borrowings or medium-term loans.

30 Interest payable and other liabilities

	2019 **AED'000**	2018 AED'000
Rent payable	**5,320**	-
Trade payables	**50,013**	44,560
Interest payable and profit payable	**37,094**	30,369
Accrued expenses	**15,351**	12,801
Transit account for payday accounts	**23,999**	24,529
Unclaimed cheques	**14,011**	15,661
Other liabilities	**49,604**	59,081
	195,392	187,001

31 Provision for employees' end of service benefits

	2019 **AED'000**	2018 AED'000
At 1 January	**14,080**	13,624
Proceeds received	**2,437**	2,436
Payments	**(1,944)**	(1,980)
At 31 December	**14,573**	14,080

32 Share capital

	2019 **AED'000**	2018 AED'000
310.1 million shares *(2018: 310.1 million shares)* of AED 1 each *(2018: AED 1 each)*	**310,050**	310,050

33 Treasury shares

Treasury shares represent the cost of 9,400 thousand shares of the Company held by the Company and a subsidiary as at 31 December 2019 *(2018: 9,400 thousand shares).*

	2019		2018	
	Number of shares '000	**AED'000**	Number of shares '000	AED'000
Share held by Finance House PJSC	**7,212**	**13,842**	7,212	13,842
Share held by Insurance House PJSC	**2,188**	**7,560**	2,188	7,560
	9,400	**21,402**	9,400	21,402

During 2014, the Company has obtained the necessary regulatory approvals to undertake a share-buy program whereby the Company buys and sells its own shares in the normal course of its equity trading and marketing activities. These shares are treated as a deduction from shareholders' equity. Any gain or loss on sales or redemption of own shares are credited or charged to reserves. During 2019, a total of Nil shares *(2018: Nil)* were purchased back from the market at an average price of AED Nil *(2018: AED Nil)* per share amounting to AED Nil *(2018: AED Nil).*

34 Employees' share-based payment scheme

The share-based payment scheme is administered by a trustee and gives the Board of Directors the authority to determine which employees of the Group will be granted the shares. The values of shares granted to employees are expensed in the period in which they are granted, and that of the remaining shares are included within shareholders' equity.

During the period, no shares were granted to employees and the value of outstanding shares not yet granted to employees as at 31 December 2019 were AED 1,750 thousand *(2018: AED 1,750 thousand).*

35 Statutory reserve

In line with the provisions of the UAE Federal Commercial Companies Law No. 2 of 2015, and the Company's Articles of Association, the Company is required to transfer annually to a statutory reserve account an amount equivalent to 10% of its profit, until such reserve reaches 50% of the share capital of the Company. During the year the Group has transferred AED 1,359 thousand to the reserve *(2018: AED 1,182 thousand).* The statutory reserve is not available for distribution.

36 Tier 1 Capital Instruments

In July 2015, the Company raised financing by way of Shariah compliant Tier 1 Capital Certificates amounting to AED 300 million (Tier 1 Sukuk). Issuance of these Capital Certificates was approved by the Company's Extra Ordinary General Meeting (EGM) in April 2015. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Certificates bear profit at a fixed rate payable semi-annually in arrears. The Capital Certificates are non-cumulative perpetual securities for which there is no fixed redemption date and are callable by the Company subject to certain conditions. Tier 1 Sukuk amounting to AED 19,600 thousand *(2018: AED 18,500 thousand)* are held by subsidiaries of the Group and, accordingly, eliminated in the consolidated statement of financial position. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon profit rate of 7.5% p.a.

In March 2019 the subsidiary of the Company 'Insurance House' raised tier 1 perpetual bonds amounting to AED 15 Million. Issuance of these perpetual bonds was approved by the Extra Ordinary General Meeting (EGM) in January 2019. These perpetual bonds bear profit at a fixed rate payable semi-annually in arrears. The perpetual bonds are non-cumulative perpetual securities for which there is no fixed redemption date and are callable by the subsidiary subject to certain conditions. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon profit rate of 8.25% p.a.

37 Commitments and contingent liabilities

The Group provides letters of credit and financial guarantees on behalf of customers to third parties. These agreements have fixed limits and are generally for a certain period of time.

Capital commitments represent future capital expenditures that the Group has committed to spend on assets over a period of time.

Irrevocable commitments to extend credit represent contractual irrevocable commitments to make loans and revolving credits.

The Group had the following commitments and contingent liabilities outstanding at period/year end:

	2019 **AED'000**	2018 AED'000
Letters of credit	**16,532**	169,522
Letters of guarantee	**1,093,270**	1,370,280
Capital commitments	**4,200**	4,200
	1,114,002	1,544,002

All financial guarantees were issued in the ordinary course of business.

38 Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Group, related parties, as defined in the IAS 24, include major shareholders of the Group, directors and officers of the Group and companies of which they are principal owners and key management personnel.

The period/year end balances in respect of related parties included in the consolidated statement of financial position are as follows:

	2019 AED'000	2018 AED'000
Loans and advances to customers		
To key management staff	**913**	973
To members of board of directors	**44,681**	38,103
To others	**-**	-
Customers' deposits		
From other entities under common control	**12,620**	11,527

Balances with related parties include loans granted to Directors and their related parties in the normal course of business amounting to AED 44,681 thousand as at 31 December 2019 *(2018: AED 38,103 thousand)*. Loans and advances to related parties are in the normal course of business and carry fixed interest rate of 6% p.a to 6.5% p.a *(2018: 6.0% p.a to 6.5% p.a)*.

Customers' deposits and margin accounts carry fixed interest rate of nil% per annum to 3.15% per annum *(2018: nil% per annum to 3.5% per annum)*.

The significant transactions included in the consolidated financial information are as follows:

	2019 AED'000	2018 AED'000
Interest and commission income		
From key management staff	**46**	32
From members of board of directors	**1,888**	1,605
Interest expense		
To others	**289**	161
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**21,051**	19,418

38 Related party disclosures *(continued)*

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the period/year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables.

39 Seasonality of results

No income of a seasonal nature was recorded in the consolidated statement of financial position for the year ended 31 December 2019 and 2018.

40 Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial information if disposed unfavorably.

41 Comparative figures

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

The table on the following page summarizes the reclassification made to the statement of financial position and statement of profit or loss and other comprehensive income for prior period.

41 Comparative figures *(continued)*

31 December 2018

	As previously reported AED'000	Impact of reclassification Reclassification AED'000	As reclassified AED'000
Statement of financial position:			
Assets			
Due from banks	512,563	(384)	512,179
Interest receivable and other assets	236,489	(94,462)	142,027
Insurance receivable and contract assets	-	94,462	94,462
	749,052	(384)	748,668
Liabilities			
Customers' deposits and margin accounts	2,747,275	(384)	2,746,891
Interest payable and other liabilities	339,291	(152,290)	187,001
Unearned premiums	-	88,938	88,938
Gross claims outstanding	-	63,352	63,352
	3,086,566	(384)	3,086,182
Profit and loss			
Net insurance premium earned	-	141,399	141,399
Net commission paid	-	(11,323)	(11,323)
Net insurance claims incurred	-	(84,443)	(84,443)
Other underwriting income	-	(6,860)	(6,860)

No impact on net income or shareholder's equity as a result of the reclassification.