Finance House L.L.C.

Directors' report and financial statements

31 December 2021

Principal business address:
P O Box 8068
Abu Dhabi
United Arab Emirates

Finance House L.L.C.

Director's report and financial statements

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Independent auditors' report

To the Shareholders of Finance House L.L.C (formerly known as Islamic Finance House P.J.S.C)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Finance House L.L.C (formerly known as Islamic Finance House P.J.S.C) ("the Company"), which comprise the statement of financial position as at 31 December 2021, the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the years 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 Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the Directors' report but does not include the financial statements and our auditors' report thereon.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

iii) the Company has maintained proper books of account;

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

v) as disclosed in note 16 to the financial statements, the Company has not purchased any shares during the year ended 31 December 2021;

vi) note 26 to the financial statements discloses material related party transactions and the terms under which they were conducted; and

Report on Other Legal and Regulatory Requirements (continued)

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

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

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates

Date: 31 March 2022

Finance House L.L.C.

Statement of financial position
as at 31 December

	Note	**2021 AED'000**	2020 AED'000
Assets			
Cash, due from banks and financial institutions	*13*	**574,517**	565,011
Investments securities	*16*	**5,751**	5,751
Loans and advances	*14*	**294,402**	-
Islamic financing and investing assets	*15*	**30,305**	60,381
Receivables and other assets	*17*	**2,114**	1,060
Property and equipment	*18*	**1**	35
Total assets		**907,090**	632,238
Liabilities and Equity			
Liabilities			
Customers' deposits	*19*	**131,478**	30,501
Customers' margins	*20*	**63,518**	23,519
Other liabilities	*21*	**134,508**	3,719
Total liabilities		**329,504**	57,739
Equity			
Share capital	*22*	**600,000**	600,000
Statutory reserve	*23*	**2,118**	1,809
Accumulated losses		**(24,532)**	(27,310)
Total equity		**577,586**	574,499
Total liabilities and equity		**907,090**	632,238
Commitments and contingent liabilities	*24*	**263,529**	54,038

To the best of our knowledge, the financial statements present fairly in all material respects the financial condition, financial performance and cash flows of the Company as of, and for, the periods presented therein.

The financial statements were authorized and approved for issue by the Board of Directors on 30th March 2022 and signed on their behalf by:

Mohammed Abdulla Jumaa Alqubaisi
Chairman

T.K. Raman
Chief Executive Officer

The notes on pages 10 to 80 are an integral part of these financial statement.

Finance House L.L.C.

Statement of profit or loss and other comprehensive income
for the year ended 31 December

	Note	**2021 AED'000**	2020 AED'000
Profit on sukuk and income from Islamic financing and investing assets	*8*	**3,665**	6,478
Interest income	*8*	**5,238**	-
Profit distributable to depositors	*8*	**(1,154)**	(981)
Net income on sukuks, interest income and profit from Islamic financing and investing assets		7,749	5,497
Fee and commission income	*9*	**2,083**	1,816
Fee and commission expenses	*9*	**(1,879)**	(928)
Net fee and commission income		**204**	888
Net investment income	*10*	-	212
Credit impairment loss on financial assets	*14,15*	(3,578)	(1,825)
Other Operating income		**342**	2,662
Net operating income		4,717	7,434
Salaries and employees' related expenses	*11*	-	(626)
General and administrative expenses	*12*	(1,630)	(5,054)
Profit for the year		3,087	1,754
Other comprehensive income:			
Items that will not be reclassified to income statement:			
Net loss on disposal of investments carried at fair value through other comprehensive income		-	(467)
Changes in fair value of investments carried at fair value through other comprehensive income		-	(673)
Other comprehensive loss for the year		-	(1,140)
Total comprehensive income for the year		3,087	614

The notes on pages 10 to 80 are an integral part of these financial statement.

Finance House L.L.C.

Statement of changes in equity

for the year ended 31 December

	Share Capital AED'000	Statutory reserve AED'000	Cumulative changes in fair value AED'000	Accumulated losses AED'000	Total AED'000
Balance at 1 January 2020	115,000	1,634	673	(28,422)	88,885
Profit for the year	-	-	-	1,754	1,754
Loss on disposal of investments carried carried at fair value through other comprehensive income	-	-	467	(467)	-
Change in fair value of investments carried at fair value through other comprehensive income, net	-	-	(1,140)	-	(1,140)
Total comprehensive income for the year	-	-	(673)	1,287	614
Transfer to statutory reserve	-	175	-	(175)	-
Balance as at 31 December 2020	115,000	1,809	-	(27,310)	89,499
Transaction with owners of the Company					
Issue of ordinary shares (note 22)	485,000	-	-	-	485,000
Balance at 31 December 2020	600,000	1,809	-	-	574,499
Balance at 1 January 2021	**600,000**	**1,809**	-	**(27,310)**	**574,499**
Profit for the year	-	-	-	**3,087**	**3,087**
Total comprehensive income for the year	-	-	-	**3,087**	-
Transfer to statutory reserve	-	**309**	-	**(309)**	-
Balance as at 31 December 2021	**600,000**	**2,118**	-	**(24,532)**	**577,856**

The notes on pages 10 to 80 are an integral part of these financial statements

Finance House L.L.C.

Statement of cash flows
for the year ended 31 December

	Note	2021 AED'000	2020 AED'000
Cash flows from operating activities			
Profit for the year		**3,087**	1,754
Adjustments for:			
Depreciation		**34**	128
Net changes in fair value of investments carried at fair value through profit or loss		**-**	198
Dividend income from investments carried at fair value through other comprehensive income		**-**	(410)
Credit impairment loss on financial assets		**3,578**	1,825
Recoveries of credit impairment of financial Assets		**(245)**	(1,897)
Impairment transferred from Finance House PJSC		**2,135**	-
Provision for employees' end of service benefits		**-**	10
		8,589	1,608
Changes in:			
Islamic financing and investing assets		**24,608**	30,541
Loans and advances		**(294,402)**	-
Receivables and other assets		**(1,054)**	198
Customers' deposits		**100,977**	16,693
Customers' margins		**39,999**	(13,419)
Other liabilities		**130,789**	(627)
Cash generated from operating activities		**9,506**	34,994
Employees' end of service benefits paid		**-**	(206)
Write-off excess provision		**-**	(60)
Net cash from operating activities		**9,506**	34,728
Cash flows from investing activities			
Proceeds from sale of investments carried at fair value through profit and loss		**-**	3,385
Proceeds from sale of investments carried at fair value through other comprehensive income		**-**	3,022
Wakala deposits placed		**(5,000)**	5,000
Dividend income received		**-**	410
Net cash (used in) / from investing activities		**(5,000)**	11,817
Cash flow from Financing activities			
Proceeds from issuance of share capital		**-**	485,000
Net increase in cash and cash equivalents		**4,506**	531,545
Cash and cash equivalents at 1 January		**565,011**	33,466
Cash and cash equivalents at 31 December	*13*	**569,517**	565,011

The notes on pages 10 to 80 are an integral part of these financial statements.

1 Legal status and principal activities

Finance House L.L.C. (formerly known as Islamic Finance House P.J.S.C ("the Company") is registered in Abu Dhabi, United Arab Emirates (UAE), as a Limited Liability Company, in accordance with its articles of association and in line with the provisions of the UAE Federal Commercial Companies Law No (2) of 2015. Finance House P.J.S.C. is the Parent Company. The name and the legal form of the company changed from Islamic finance House P.J.S.C ("the Company") to Finance House L.L.C. on the general assembly held on 25th march 2020.

Central Bank of the UAE Finance Companies Regulation circular no. 112/2018 issued on 24 April 2018 is applicable to the Company and came into effect on 24 May 2018. The Company is currently assessing and evaluating the relevant provisions of the Finance Companies Regulation. On 12 October 2020, Central Bank of the UAE has licensed Finance House L.L.C. (formerly known as Islamic Finance House P.J.S.C.) to conduct financing business specified in Article (10) of the Finance Companies Regulation.

The registered office of the Company is at PO Box 8068, Abu Dhabi, UAE.

The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

The financial statements were authorized for issue by the Board of Directors on 30 March 2022.

2 Basis of preparation

(a) Statement of compliance

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

On 1 April 2015, UAE Federal Law No 2 for Commercial Companies ("UAE Companies Law of 2015") was issued with effective date 1 July 2015. The Company is in compliance with applicable sections of the UAE Companies Law of 2015 as at the date of these financial statements.

On 23 September 2018, a new Decretal Federal Law No 14 of 2018 regarding the Central Bank and Organization of Financial Institutions and Activities was issued. As per the transitional provisions of the new law, financial institutions are to ensure compliance within 3 years from the date of issuance of the decretal law. The Company is in the process of adopting the new decretal federal law and will be fully compliant before the transitional provisions deadline.

(b) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis except for debt securities and 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.

2 Basis of preparation *(continued)*

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company'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

Interest Rate Benchmark Reform

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

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*

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Company has not early adopted the new and amended standards in preparing these consolidated financial statements.

The following new and amended standards are not expected to have a significant impact on the Company's consolidated financial statements.

• Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
• Reference to Conceptual Framework (Amendments to IFRS 3)	1 January 2022
• IFRS 17 Insurance Contracts and amendments to IFRS 17	1 January 2023
• Annual Improvements to IFRS Standards 2018-2020	1 January 2022
• Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023

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

(b) *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 Company in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position

(c) *Financial assets*

Classification

The Company 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.

4 Significant accounting policies *(continued)*

(c) Financial assets (continued)

Classification *(continued)*

For assets measured at fair value, gains and losses will either be recorded in income statement or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Company 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 Company may irrevocably elect to resent subsequent changes in fair value in OCI. The election is made on an investment-by-investment basis.

Reclassification

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

Measurement

At initial recognition, the Company 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 statement of comprehensive income.

Debt instruments

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

i. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit 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 income statement when the asset is derecognized or impaired. Profit income from these financial assets is included in the statement of profit and loss.

ii. Fair value through other comprehensive income (FVOCI): 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, profit income and foreign exchange gains and losses which are recognized in the income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to income statement.

4 Significant accounting policies *(continued)*

(c) Financial assets (continued)

Debt instruments *(continued)*

iii. Fair value through profit or loss: 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 income statement in the period in which it arises. Profit income from these financial assets is included in income statement within profit income.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a Company 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 Company assesses whether financial instruments' cash flows represent solely payments of principal and profit (the 'SPPI test').

In making this assessment, the Company considers whether contractual cash flows are consistent with a basic lending arrangement, i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and an profit 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 entirely when determining whether their cash flows are solely payment of principal and profit.

The Company 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 profit in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

3 Significant accounting policies *(continued)*

(c) Financial assets (continued)

Equity instruments *(continued)*

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to income statement. Dividends from such investments continue to be recognized in income statement as when the Company'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 income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Dividends from such investments continue to be recognized in profit or loss and when the Company'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 statement of profit or 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 Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective 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).

Modification of loans

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

3 Significant accounting policies *(continued)*

(c) Financial assets (continued)

Modification of loans *(continued)*

- 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 Company 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 Company also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the 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 Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit and loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Amortised cost and effective profit 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 profit rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

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

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

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

3 Significant accounting policies (continued)

(c) Financial assets (continued)

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset

are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 profit in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or lability.

If the Company 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 Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company 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 Company 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 Company 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 Company recognises 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.

4 Significant accounting policies *(continued)*

(c) Financial assets (continued)

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 Company provides funds directly to a customer with no intention of trading the receivable.

- Murabaha is stated at amortized cost less any provisions for impairment and deferred income.
- Ijara's and purchase and lease back cost is measured and reported in the financial statements at a value not exceeding the cash equivalent value. The Ijara and purchase & leaseback are classified as a finance lease, when the Company 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.

Modification of Islamic financing and investing assets

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

- If the 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 Islamic financing.
- Significant extension of the Islamic financing term when the borrower is not in financial difficulty.
- Significant change in the profit rate.
- Change in the currency the Islamic financing is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the Islamic financing.

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

4 Significant accounting policies *(continued)*

(c) Financial assets (continued)

Modification of Islamic financing and investing assets *(continued)*

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

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownerships, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

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

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

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

Collateral (shares and bonds) furnished by the Company under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Company 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 Company retain a subordinated residual profit.

(d) Financial liabilities

Classification and subsequent measurement

Financial liabilities (including customers' 'deposits and margin accounts' and 'due to banks – short term borrowings and medium terms loans') are initially recognized as 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;

4 Significant accounting policies *(continued)*

(d) Financial liabilities (continued)

Classification and subsequent measurement *(continued)*

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Company recognizes any expense incurred on the financial liability; and
- Financial guarantee contracts and Islamic financing commitments.

Derecognition

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 statement of financial position, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss.

Modification

The Company 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 profit rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective profit 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 profit rate on the instrument.

(e) Financial guarantee contracts and Islamic financing commitments

Financial guarantees are contracts that require the Company 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. Islamic financing 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.

4 Significant accounting policies *(continued)*

(e) Financial guarantee contracts and Islamic financing commitments (continued)

Islamic financing commitments provided by the Company are measured as the amount of the loss allowance calculated as described in *Note 6.*

(f) 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 Company. 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.

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

	Years
Motor vehicles	4
Furniture and fixtures	3-5
Office equipment	4
Computers	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.

4 Significant accounting policies *(continued)*

(g) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Companied at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

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.

(h) Provisions

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

The amount 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.

(i) Employees' end of service benefits

Defined contribution plan

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

Defined benefit plan

The Company provides end of service benefits for its employees. 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.

(j) Foreign currencies

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

4 Significant accounting policies *(continued)*

(j) Foreign currencies (continued)

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.

(k) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company 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 Company of similar transactions such as in the Company's trading activity.

(l) 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 Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are 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)*

(l) Fair values measurements (continued)

The Company 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 Company 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 Company 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. The management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Company'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.

(m) Recognition of income

i) Profit and Interest

For all financial instruments measured at amortized cost and profit bearing financial instruments, profit income or expense is recorded at the effective profit/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 profit rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective profit rate and the change in carrying amount is recorded as profit income or expense.

4 Significant accounting policies *(continued)*

(m) Recognition of income (continued)

ii) Fees and commission

The Company 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. Islamic financing commitment fees that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective profit rate on the Islamic financing. When it is unlikely that a Islamic financing will be drawn down, the commitment fees are recognised over the commitment period on a straight-line basis.
- Fees or components of fees that are linked to a certain performance are recognised 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 Company's right to receive the payment is established.

(n) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

5 Significant accounting judgements and estimates

The preparation of the Company's 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.

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 Company based its assumptions and estimates on parameters available when the 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 Company. Such changes are reflected in the financial statements when they occur.

i) 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*.

ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised 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)(vii)*.

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 Companies of similar financial assets for the purposes of measuring ECL.

6 Financial risk management

(a) Introduction

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being 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 Company, under which there is a Board Investment and Credit Committee (BICC) comprising of four board members and the Company 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 Company. 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 Company. 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 Company. 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

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 Company 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 Company that holds the responsibility to make strategic decisions to manage balance sheet related risks. The Asset Liability Committee, consisting of the Company'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 Company. 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)

Board Risk Management Committee

BRMC is an independent committee of the Board of Directors that has, as its sole and exclusive function, the responsibility to ensure the effectiveness of FH's risk management and compliance frameworks.

The Committee assists the BOD in fulfilling its oversight responsibilities with regard to the risk appetite of the Company, the risk management and compliance framework and the governance structure, that supports it.

Risk Management Department (RMD)

The RMD is an independent unit reporting to the Company Chief Risk Officer. The RMD is responsible for identifying, measuring, monitoring and controlling the risks arising out of various activities in the Company 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 Company.

Treasury

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

Internal Audit

Risk management processes throughout the Company are audited annually by the internal audit function that examines both the adequacy of the procedures and the Company'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 Company.

ii) Risk measurement and reporting systems

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

6 Financial risk management *(continued)*

(a) Introduction (continued)

ii) Risk measurement and reporting systems (continued)

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 Company.

For all levels throughout the Company, 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.

iii) Risk mitigation

As part of its overall risk management, the Company uses certain instruments to manage exposures resulting from changes in profit rates and foreign currencies.

The Company 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 Company's performance to developments affecting a particular industry or geographic location.

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

Details of the composition of the Islamic financing and investing portfolio are provided in *note 14*. Information on credit risk relating to investments is provided in *note 6(b)*.

v) Risk assessment

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

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

6 Financial risk management *(continued)*

(b) Credit risk

'Credit risk' is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's Islamic financing and investing assets to customers and other banks, and investment debt securities. For risk management reporting purposes, the Company 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 Company'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 Islamic financing and investing assets measured at amortized cost have been disclosed in *note 14* such that there is no reasonable expectation of recovering in full.

Response to COVID 19

The Company has performed an initial internal analysis to identify potential accounts that are prima-facie eligible for temporary relief from payments of principal and interest (Deferment or Extension) on outstanding loans of Corporate customers under the TESS program. The Company has received deferment requests from customers (Corporate / SME / Retail) due to Covid-19 pandemic stress in the UAE economy. The Company evaluated each such request on its own merit and consider providing relief to the requesting customer subject to additional terms if any, as deemed fit by the concerned operating entity of the Company.

Significant Increase in Credit Risk

The Company has assessed the SICR factors such as:

1. Rescheduling & Restructuring of the facilities
2. Obligor Risk Rating (ORR) migration due to financial deterioration
3. Increase in past dues

Change in Macro Economic Factors

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The management has dynamic forward looking ECL computation methodology based on Macro Economic forecast. There is significant increase in volatility (albeit temporary) in Macro Economic factors due to COVID-19 pandemic situation. The Company is carefully assessing the situation and has noticed that volatility levels have reduced in the recent past.

The updated Model Validation & Calibration are in progress to implement the changes.

COVID-19 and Expected Credit Loss (ECL)

On 11 March 2020, the World Health Organization ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty and governments and authorities have instigated a host of measures to contain or delay the spread of the virus.

6 Financial risk management *(continued)*

(b) Credit risk (continued)

COVID-19 and Expected Credit Loss (ECL) *(continued)*

On 27th March 2020, the IASB issued a guidance note, advising that both the assessment of Significant Increase in Credit risk ("SICR") and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. It is difficult at this time to incorporate the specific effects of COVID-19 and government support measures on a reasonable and supportable basis.

The Central Bank of the UAE (CBUAE) approved and issued the standards of the UAE's Targeted Economic Support Scheme (TESS); Circular No.: CBUAE/BSD/N/2020/1479 dated 18/03/2020 (The TESS Regulation) to contain the repercussions of the COVID-19 pandemic in the UAE. The TESS regulation is designed to:

1. facilitate the provision of short and medium term relief from the payments of principal and/or interest/profit on outstanding loans and selective rescheduling/ restructuring of loans for all affected private sector corporates, SMEs and individuals;
2. enhance lending capacity of banks, through partial release of existing capital buffers;
3. outline expectations and the actions to be taken under the TESS by all banks and finance companies operating in the UAE.

Under the TESS program, CBUAE set-up a "Zero Cost Facility" (ZCF) against eligible collateral. ZCF will be priced at zero interest rate and banks and finance companies are expected to pass on the benefits of such a no cost liquidity facility, at the minimum, to their clients who have been identified to be eligible as per these Standards. The "Eligible Collateral" includes the following:

i. Certificate of Deposit, both conventional and Islamic (CDs or ICD's) issued by CBUAE; and
ii. Interim Marginal Lending Facility (IMLF) and Collateralized Murabaha Facility (CMF).

The Central Bank of the UAE (CBUAE) approved and issued the Treatment of IFRS 9 Expected Credit Loss in the context of the Covid-19 crisis; Circular No.: CBUAE/BSD/N/2020/2019 dated 22/04/2020 (IFRS 9 ECL Provision Guidelines) to contain the repercussions of the COVID-19 pandemic in the UAE.

Noting the prevailing volatility in the market due to Covid-19 implications and considering that the usage of economic model & forecast can lead to higher volatility in the expected loss for the calculation of IFRS9 accounting provision, CB suggested the following:

I. Bank & Finance Companies have to classify their customer under Group 1 and Group 2 based on impact severity as under:
   - Group 1: Temporarily & Mildly impacted i.e. clients are not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the Covid-19 crisis, hence their assigned "stage" under IFRS 9 should remain the same. These clients will remain in their current stage, at least for the duration of the crisis, or their distress, whichever is the shorter.

6 Financial risk management *(continued)*

(b) Credit risk (continued)

COVID-19 and Expected Credit Loss (ECL) *(continued)*

- Group 2: Significantly impacted i.e. clients are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals, hence their "Stage" migration limited to Stage 1 to Stage 2 only. Due to the possibility of later economic rebound, these clients are not expected to migrate to IFRS 9 stage 3, except for cases involving bankruptcy, fraud, skips etc.

II. No calibration (updation) of IFRS9 models (PD, LGD, EAD etc.) due to the high uncertainty of economic consequences. Only input adjustments and judgmental overlays should be considered, if necessary.

III. Realized additional draw- downs are expected during the crisis, hence input adjustments and judgmental overlays are required to account for weakness in the predictive power of Exposure at Default (EAD) models.

IV. No calibration (updation) of Macroeconomic scenario in ECL estimation models. However, it is recommended to continue assessing the range of possible outcomes on ECL and to be re-introduced in the ECL estimation no later than 30/09/2020. Dedicated governance should be put in place to thoroughly assess and review the overlays before they are added to IFRS 9 ECL estimation models.

Group 1: are the customers who are not expected to face substantial change in their creditworthiness beyond liquidity issue caused by the COVID-19 crisis.

This sub segment includes borrowers for which the credit deterioration is not considered significant enough to trigger a SICR. Such customers are expected to face short term liquidity issues caused by business disruption/salary cuts and are expected to recover rapidly once the economic environment stabilizes. These accounts are not considered to have sufficient deterioration in credit quality to trigger a stage migration and the staging may be retained at the same level.

Group 2: customers that are significantly expected to be impacted by COVID-19.

This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. Stage migration i.e. Stage 1 to Stage 2 migration should take place. Due to the possibility of later economic rebound, these clients are not expected to migrate to IFRS 9 stage 3, accepting cases but in exceptional circumstances such as bankruptcy, fraud, skip cases.

The Grouping of the client is based on a combination of quantitative analysis and judgmental approach based on subject matter expert views within the Organization.

No customers fall within Group 1 or Group 2 as at 31 December 2021.

6 Financial risk management *(continued)*

(b) Credit risk (continued)

Clients benefiting from deferrals under Target Economic Support Scheme (TESS) & non-TESS by Segment:

Table 1: Deferrals information as at 31 December 2020

Segment	Stage	Group	Payment deferrals AED'000	Exposure at Default AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	-	-	-
		Group 2	167	451	17
	Stage 2	Group 1	-	-	-
		Group 2	20	127	38
Total			187	578	55

Segment	Stage	Group	Payment deferrals AED'000	Exposure at Default AED'000	Impairment allowance AED'000
Wholesale banking	Stage 1	Group 1	692	17,097	21
		Group 2	1,649	1,499	14
	Stage 2	Group 1	161	530	1
		Group 2	71	288	-
Total			2,573	19,414	36

Table 2: ECL change (flow) since beginning of year to date.

	Non-credit impaired		Credit impaired	
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Retail banking				
ECL allowance as of start of the year	581	458	50,299	51,338
Credit card	(151)	25	1,979	1,853
EF	(202)	(312)	667	153
SME loans	(25)	-	(1,906)	(1,931)
ECL allowance as of end of the year	203	171	51,039	51,413

6 Financial risk management *(continued)*

(b) Credit risk (continued)

Clients benefiting from deferrals under Target Economic Support Scheme (TESS) & non-TESS by Segment: *(continued)*

Table 2: ECL change (flow) since beginning of year to date. *(continued)*

	Non-credit impaired		Credit impaired	
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Wholesale banking				
ECL allowance as of start of the year	379	1,135	8,089	9,603
Services	(63)	(92)		(155)
Manufacturing	1	-	3	4
Trade	(20)	56	-	36
Others	(94)	62	-	(32)
ECL allowance as of end of the year	202	1,162	8,092	9,456

6 Financial risk management *(continued)*

(b) Credit risk (continued)

Clients benefiting from deferrals under Target Economic Support Scheme (TESS) & non-TESS by Segment: *(continued)*

Table 3: Stage migration since beginning of year

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Total Outstanding	AED'000 Impairment allowance	AED'000 Total Outstanding	AED'000 Impairment allowance	AED'000 Total Outstanding	AED'000 Impairmen t allowance	AED'000 Total Outstanding	AED'000 Impairment allowance
Retail banking								
As of 1 January 2020	14,454	581	1,488	458	58,456	50,299	74,398	51,338
Transfers from stage 1 to stage 2	(1,682)	-	1,682	-	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	(1,185)	-	(505)	-	1,690	-	-	-
Transfers from stage 3 to stage 2 & 1	-	-	-	-	-	-	-	-
Other movements	(2,466)	(378)	(2,073)	(287)	(1,786)	740	(6,325)	75
As of end of at 31 December 2020	9,121	203	592	171	58,360	51,039	68,073	51,413
Wholesale banking								
As of 1 January 2020	124,506	379	5,453	1,135	8,403	8,089	138,362	9,603
Transfers from stage 1 to stage 2	(16,069)	-	16,069	-	-	-	-	-
Transfers from stage 2 to stage 1	1,381	-	(1,381)	-	-	-	-	-
Transfers from 1&2 to stage 3	-	-	(134)	-	134	-	-	-
Transfers from stage 3 to stage 2 & 1	-	-	-	-	-	-	-	-
Other movements	(31,818)	(176)	(7,480)	26	(105)	3	(39,403)	(147)
As of end of at 31 December 2020	78,000	203	12,527	1,161	8,432	8,092	98,959	9,456

6 Financial risk management *(continued)*

(b) Credit risk (continued)

Clients benefiting from deferrals under Target Economic Support Scheme (TESS) & non-TESS by Segment: *(continued)*

Borrowers were not given any deferment scheme as at 31 December 2021.

The below table shows the movement of Exposure at Default:

Movement of Exposure at Default (EAD)	**AED'000**
Exposure at Default (EAD) as at 1 January 2021	**113,584**
Exposure (decreased) for Commercial loans	**209,500**
Exposure (decreased) for Retail loans	**3,067**
Exposure at Default (EAD) as at 31 December 2021	**326,150**

The below table shows TESS utilization by Group 1 and Group 2 by segment as at 31 December 2020:

Group 1	**% of Deferred AED'000**	**Amount Deferred AED'000**	**Total Loans and Advances AED'000**	**% of Loans and Advances AED'000**
Commercial Loans	**31%**	**853**	**17,627**	**15%**
Retail Loans	**0%**	**-**	**-**	**0%**
	31%	**853**	**17,627**	**15%**
Group 2	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Commercial Loans	**62%**	**1,720**	**1,787**	**1%**
Retail Loans	**7%**	**187**	**578**	**1%**
	69%	**1,907**	**2,365**	**1%**

The below table shows the movement of Exposure at Default:

Movement of Exposure at Default (EAD)	**AED'000**
Exposure at Default (EAD) as at 1 January 2020	**139,755**
Exposure (decreased) for Commercial loans	**(13,600)**
Exposure (decreased) for Retail loans	**(12,571)**
Exposure at Default (EAD) as at 31 December 2020	**113,584**

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(i) Settlement risk

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

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

(ii) Write-off policy

The Company writes off financial assets, in a 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 Company'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.

(iii) Modification of financial assets

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

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 profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company Credit Committee regularly reviews reports on forbearance activities

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

Islamic Finances (including Islamic Finance 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 Company 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 Company uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Company uses internal rating models tailored to the various categories of industry/segments of counterparty. Borrower and Islamic Finance specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) which 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)

Credit risk grading (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 a 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 grad
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 and SME (or small business facilities);
- 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. The Company's Internal Risk Rating Scale and mapping of external ratings are set out on the next page.

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 of a facility as summarised 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 Company.
- 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'. Refer to *Note 6(b)(vi)* for a description of how the Company defines credit-impaired and default and credit-impaired assets.
- 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 Company has incorporated this in its ECL models.

The following diagram summarises 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 Company considers a financial asset to have experienced a significant increase in credit risk when a significant change in one-year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date.

Quantitative criteria

Corporate Facility:
For corporate facilities, if the borrower experiences a significant increase in probability of default, which can be triggered by the following quantitative 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;
- Facility rescheduling before 30 Days Past Due (DPD); and
- 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:

For Retail portfolios, if the borrower meets one or more of the following criteria:
- In short-term forbearance;
- Direct debit cancellation;
- Extension to the terms granted;
- Previous arrears within the last 12 months.

For Corporate Facilities and Treasury portfolios, if the borrower is on the Watch list and/or the instrument meets one or more of the following criteria:
- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

Qualitative criteria: *(continued)*

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all Retail financial instruments held by the Company. In relation to Wholesale and Treasury financial instruments, where a watch list is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

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

(vi) Definition of default and credit-impaired assets

The Company 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:

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 particular obligors when either one or the following events have taken place:

- The Company considers that the obligor is unlikely to pay its credit obligation to the Company in full without recourse by the Company to actions like realizing security (if held).
- The Company puts credit obligation on non-accrued status.
- The Company makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Company taking on the exposure.
- The Company sells the credit obligation at a material credit-related economic loss.
- The Company consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, profit and other fees.
- The Company has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Company. The obligor has sought or has been placed in bankruptcy or similar protection wherein this would avoid or delay repayment of the credit obligation to the Company.
- The obligor is past due more than 90 days on any material credit obligation to the Company. 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 Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Company's expected loss calculations.

6 Financial risk management *(continued)*

(b) Credit risk (continued)

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

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 Company 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 Company 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.
- Loss Given Default (LGD) represents the Company'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 profit 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.

6 Financial risk management *(continued)*

(b) Credit risk (continued)

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

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

- For amortising products and bullet repayments 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 Company'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.

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 Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. 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.

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(viii) Forward looking information incorporated in the ECL models (continued)

In addition to the base economic scenario, the Company'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 2021 and 31 December 2021, for all portfolios the Company 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 2021, is as per the below table:

Economic Scenarios		
Slow	Normal	Fast
50%	30%	20%

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 Company 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.

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 2021 was Oil prices (Oil price 2021: $73/Barrel, 2022: $88/ Barrel).

(ix) Sensitivity analysis of forward-looking factors

The Company has calculated ECL for facilities on a segmented portfolio level, wholesale and retail.

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(ix) Sensitivity analysis of forward-looking factors (continued)

Wholesale

The Company 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 Company 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 36 thousand only. 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 Company 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 700 thousand only. These changes are applied simultaneously to each probability-weighted scenarios 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 Company's maximum exposure to credit risk on these assets:

	2021			
	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	297,780	-	-	297,780
Grading 2	-	-	-	-
Grading 3	-	-	-	-
Grading 4	-	-	-	-
Grading 5	-	-	-	-
	297,780	-	-	297,780
Loss allowance	(3,378)	-	-	(3,378)
Carrying amount	294,402	-	-	294,402
Credit risk exposures relating to off-balance sheet items are as follows				
Guarantees	228,061	-	-	228,061
Loss allowance	(561)	-	-	(561)
Carrying amount	227,500	-	-	227,500

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Notes to the financial statements *(continued)*

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(x) Credit risk exposure

Credit quality analysis

	2021			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing and investing assets				
Grading 1	16,181	84	-	16,266
Grading 2	133	4,578	-	4,711
Grading 3	-	-	4,803	4,803
Grading 4	-	-	982	982
Grading 5	-	-	66,502	66,502
	16,314	4,662	72,287	93,264
Loss allowance	(396)	(227)	(62,335)	(62,959)
Carrying amount	15,918	4,435	9,952	30,305
Credit risk exposures relating to off-balance sheet items are as follows				
Guarantees	35,304	164	-	35,468
Loss allowance	(18)	(2)	-	(20)
Carrying amount	35,286	162	-	35,448
Credit risk exposures relating to on-balance sheet assets				
Due from banks at investment grade	573,820	-	-	573,820
	573,820	-	-	573,820

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(x) Credit risk exposure (continued)

Credit quality analysis (continued)

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

	2020			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing and investing assets				
Grading 1	39,190	7,792	-	46,982
Grading 2	456	7,018	-	7,474
Grading 3	-	-	1,359	1,359
Grading 4	-	-	1,372	1,372
Grading 5	-	-	64,063	64,063
	39,646	14,810	66,794	121,250
Loss allowance	(405)	(1,332)	(59,132)	(60,869)
Carrying amount	39,241	13,478	7,662	60,381
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	53,537	664	-	54,201
Guarantees	(111)	(52)	-	(163)
Loss allowance				
	53,426	612	-	54,038
Carrying amount				
Credit risk exposures relating to on-balance sheet assets				
Due from banks at investment grade	564,930	-	-	564,930
	564,930	-	-	564,930

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(x) Credit risk exposure (continued)

Collateral and other credit enhancements

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

The Company'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 Company since the prior period.

Collateral against facility measured at amortised cost is generally held in the form of mortgage profit 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 Company closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Company will take possession of the collateral to mitigate potential credit losses.

Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below:

	Loans and Advances	
	2021	2020
	AED'000	AED'000
Against individually impaired Islamic financing and investing assets:		
Cash	4	4
	4	4
Total against Individually impaired		
Against Islamic financing and investing assets not impaired:		
Property	**25,000**	-
Equities	**49,745**	-
Cash	**45,443**	-
	120,188	-

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Notes to the financial statements *(continued)*

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(x) Credit risk exposure (continued)

Collateral and other credit enhancements

	Islamic financing and investment products	
	2021	2020
	AED'000	AED'000
Against individually impaired Islamic financing and investing assets:		
Cash	**4**	4
	4	4
Total against Individually impaired		
Against Islamic financing and investing assets not impaired:		
Property	**13,102**	35,227
Equities	**7,838**	7,171
Cash	**22,278**	42,329
Others	**3,050**	3,080
	46,268	87,807

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(xi) Loss allowance

The loss allowance recognised 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 recognised during the period, as well as releases for financial instruments de-recognised 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;
- 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 derecognised 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 December 2021 due to these factors:

	2021			
	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				
Transfers	-	-	-	-
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	3,378	-	-	3,378
Changes in PDs/LGDs/EADs				
Reversal of no longer required impairment charges	-	-	-	-
Loss allowance as at 31 December 2021	3,378	-	-	3,378

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(xi) Loss allowance (continued)

	2021			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Islamic financing and investing assets				
Loss allowance as at 1 January	**405**	**1,332**	**59,132**	**60,869**
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	**(950)**	**2,051**	**1,101**
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Changes in PDs/LGDs/EADs	**(275)**	**(154)**	**1,418**	**989**
Reversal of no longer required impairment charges	-	-	-	-
Loss allowance as at 31 December 2021	**130**	**228**	**62,601**	**62,959**

The following table explain the changes in the loss allowance between the beginning and the end of the annual period December 2020 due to these factors:

	2020			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	AED'000	AED'000	AED'000	AED'000
Islamic financing and investing assets				
Loss allowance as at 1 January	960	1,593	58,388	60,941
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	(129)	1,161	-	1,032
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	12	(187)	-	(175)
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-
Reversal of no longer required impairment charges	(437)	(1,235)	743	(929)
Loss allowance as at 31 December 2020	406	1,332	59,131	60,869

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 2021:

	2021			
	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 2021	-	-	-	-
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
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	297,780	-	-	297,780
Repayments during the year	-	-	-	-
Other movements	-	-	-	-
Reversal of no longer required impairment charges				
Gross carrying amount as at 31 December 2021	**297,780**	**-**	**-**	**297,780**
Due from banks at investment grade	-	-	-	-

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 2021:

	2021			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Islamic financing and investing assets				
Gross carrying amount as at 1 January 2021	78,166	3,402	70,223	151,791
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(3,804)	4,102	298
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	-	-	-	-
Other movements	(61,852)	5,064	(2,037)	(58,825)
Reversal of no longer required impairment charges				
Gross carrying amount as at 31 December 2021	16,314	4,662	72,288	93,264
Due from banks at investment grade	573,820	-	-	573,820

There were no transfers between the stages during the year ended 31 December 2021.

	2021			
	Stage 1 12-month ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**Total AED'000**
Off-balance sheet items				
Gross carrying amount as at 1 January 2021	53,374	664	-	54,038
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	209,491	-	-	209,491
Repayments during the year	-	-	-	-
Gross carrying amount as at 31 December 2021	262,865	664	-	263,529

6 Financial risk management *(continued)*

(b) Credit risk (continued)

(xii) Gross carrying amount (continued)

	2020			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing and investing assets				
Gross carrying amount as at 1 January 2020	78,167	3,401	70,223	151,791
Transfers				
Transfer from Stage 1 to Stage 2	(16,069)	14,209	-	(1,860)
Transfer from Stage 1 to Stage 3	-	-	(2)	(2)
Transfer from Stage 2 to Stage 3	1,381	(1,802)	-	(421)
Transfer from Stage 3 to Stage 2	-	(134)	71	(63)
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	-	-	-	-
Other movements	(23,834)	(904)	(3,457)	(28,195)
Reversal of no longer required impairment charges	-	-	-	-
Gross carrying amount as at 31 December 2020	39,645	14,770	66,835	121,250
	564,930	-	-	564,930
Due from banks at investment grade	564,930	-	-	564,930

There were no transfers between the stages during the year ended 31 December 2020.

	2020			
	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	Total AED'000
Off-balance sheet items				
Gross carrying amount as at 1 January 2019	104,949	175	-	105,124
Transfers	-	-	-	-
Transfer from Stage 1 to Stage 2	-	489	-	489
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	(51,575)	-	-	(51,575)
Gross carrying amount as at 31 December 2019	53,374	664	-	54,038

6 Financial risk management *(continued)*

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

(xiii) ***Concentration of credit risk***

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below:

	Loans and advances	
	2021	2020
	AED'000	AED'000
Services	**29,640**	-
Trade	**64,898**	-
Real Estate	**19,817**	-
Manufacturing	**36,056**	-
Others	**147,369**	-
	297,780	-

	Islamic Financing Assets	
	2021	2020
	AED'000	AED'000
Construction	**6,793**	6,751
Services	**9,347**	14,728
Trade	**652**	5,535
Real Estate	**5,000**	4,990
Manufacturing	**973**	1,473
Others	**70,499**	87,773
	93,264	121,250

(c) ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations from financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Typically, the Company 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 summarises the maturity profile of the Company's gross assets and liabilities at 31 December 2021 based on contractual maturities.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
ASSETS					
Cash and due from banks and financial institutions	574,517	-	-	-	574,517
Islamic financing and investing assets	126,697	960	5,789	-	133,446
Loans & Advances	168,954	1,673	127,305	-	297,932
Investments	-	-	5,751	-	5,751
Other assets	1,542	571	-	-	2,114
Financial assets	871,710	3,204	138,845	-	1,013,759
Non-financial assets	1	-	-	-	1
Total assets	871,711	3,204	138,845	-	1,013,760

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES					
Customers' deposits	74,896	56,581	-	-	131,477
Customers' margins	-	-	63,518	-	63,518
Other liabilities and provision for EOSB	124,554	9,954	-	-	134,508
Total liabilities	199,450	66,535	63,518	-	329,503
Off balance sheet					
Contingent liabilities	239,854	13,765	9,910	-	263,529
Total	239,854	13,765	9,910	-	263,529

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Notes to the financial statements *(continued)*

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 Company's gross assets and liabilities at 31 December 2020 was as follows:

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
ASSETS					
Cash and due from banks and financial institutions	565,011	-	-	-	565,011
Islamic financing and investing assets	32,146	11,393	14,274	2,568	60,381
Investments	-	-	5,751		5,751
Other assets	306	-	-	-	306
Financial assets	597,463	11,393	20,025	2,568	631,449
Non-financial assets	179	575	35	-	789
Total assets	597,642	11,968	20,060	2,568	632,238

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES					
Customers' deposits	3,780	26,721	-	-	30,501
Customers' margins	-	-	23,519	-	23,519
Other liabilities and provision for EOSB	2,232	1,487	-	-	3,719
Total liabilities	6,012	28,208	23,519	-	57,739
Off balance sheet					
Contingent liabilities	50,098	2,712	1,228	-	54,038
Total	50,098	2,712	1,228	-	54,038

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 profit payments
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

6 Financial risk management *(continued)*

(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 profit rates, foreign exchange rates, price of equity and fixed income securities.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Company separates its exposure to market risk between trading and banking book as defined below:

Market risk arising from trading book

Trading positions are held by the Treasury division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in consolidated income statement.

Market risk arising from banking book

Market risk from banking book arises from execution of the Company core business strategies, products and services to its customers, that invariably create interest rate risk t the Group endeavors to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading such as but not limited to the Company's investments in instruments designated at FVTOCI, loans and advances carried at amortised cost and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Risk identification and classification

The Board Risk Management Committee (BRMC) approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

Management of market risk

The Board of Directors have set risk limits based on the Value-at Risk (VaR), which are closely monitored by the risk management division and reported regularly to the BRMC and discussed by ALCO.

Market risk is identified, measured, managed and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Company's market risk profile transparent to senior management, the Board of Directors and Regulators.

6 Financial risk management *(continued)*

(d) Market risk (continued)

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk. The Company uses various matrices, both statistical and non-statistical, including sensitivity analysis.

Statistical risk measures

The Company measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Company measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every hundred days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Company uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day and intra-day risk levels may vary from those reported at the end of the day. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

The Company uses three major methods for calculation of VaR. They are (1) Historical Simulation Method, (2) Parametric Approach and (3) Monte Carlo Simulation.

6 Financial risk management *(continued)*

(d) Market risk (continued)

Allocation of assets and liabilities

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

31 December 2021		**Market risk measure**	
	Carrying amount AED'000	**Trading portfolio AED'000**	**Non-trading portfolio AED'000**
Assets subject to market risk			
Cash, due from banks and financial institutions	**574,517**	-	-
Investments securities	**5,751**	**5,751**	-
Loans and Advances	**297,780**	-	-
Islamic financing and investing assets	**26,927**	-	-
Other assets	**2,115**	-	-
Liabilities subject to market risk			
Customers' deposits	**131,478**	-	-
Customers' margins	**63,518**	-	-
Other liabilities	**134,508**	-	-

31 December 2020		Market risk measure	
	Carrying amount AED'000	Trading portfolio AED'000	Non-trading portfolio AED'000
Assets subject to market risk			
Cash, due from banks and financial institutions	565,011	-	-
Investments securities	5,751	5,751	-
Islamic financing and investing assets	60,381	-	-
Other assets	1,060	-	-
Liabilities subject to market risk			
Customers' deposits	30,501	-	-
Customers' margins	23,519	-	-
Other liabilities	3,719	-	-

6 Financial risk management *(continued)*

(d) Market risk (continued)

(i) Profit rate risk

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

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

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

The sensitivity of the income statement is the effect of the assumed changes in profit rates on the Company's profit for the year, based on the floating rate financial assets and liabilities held at 31 December 2020.

	Equity	
	+1% increase AED'000	**-1% decrease AED'000**
31 December 2021		
Change of 1%	**2,849**	**(2,849)**
Cash flow sensitivity	**2,849**	**(2,849)**
31 December 2020		
Change of 1%	1,472	(1,472)
Cash flow sensitivity	1,472	(1,472)

(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 Company'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 Company.

6 Financial risk management *(continued)*

(d) Market risk (continued)

(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 Company's investment portfolio.

The following table estimates the sensitivity to a possible change in equity and fixed income markets on the Company's income statement. The sensitivity of the income statement 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**
2021		
Investments carried at fair value through profit or loss	-	-
Abu Dhabi Securities Market Index		
Fixed income securities	**288**	**(288)**
Cash flow sensitivity	**288**	**(288)**
2020		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index		
Fixed income securities	58	(58)
Cash flow sensitivity	58	(58)

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.

6 Financial risk management *(continued)*

(e) Operational risk

(i) Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Company and can expose the Company to potentially large losses, legal suits, regulatory criticism and reputational damage.

The Company has established an independent Operational Risk Management ('ORM') function that forms part of the Risk Management Department. ORM is responsible for overseeing the operational risk framework at the organizational level to ensure the development and consistent application of operational risk policies, tools and processes throughout the company and quarterly report on ORM is being regularly submitted to the Board Risk Management Committee (BRMC).

The objective of the Group's operational risk management is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with well-defined risk appetite.

The Company has implemented a detailed Operational Risk Management Framework ('ORMF') in accordance with Central Bank of the UAE guidelines and industry best practices. The ORMF articulates clearly defined roles and responsibilities of individuals / units and committees across the Group involved in the management of various operational risk elements. The ORMF ensures that operational risks within the Group are properly identified, monitored, reported and actively managed.

(ii) Three lines of defense

The Company follows "Three Lines of Defense Model" to provide a simple and effective way to enhance communication on ORM and control by clarifying essential roles and duties. The model provides a fresh look at operations, helping to assure the ongoing success of ORM initiatives

The three lines of defense are summarized below:

The first line of defense owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.

The second line of defense sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and monitors the first line of defense on effective risk management.

The third line of defense is the Group's Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

6 Financial risk management *(continued)*

(e) Operational risk (continued)

(iii) Operational risk identification and management

Typically, Operational Risk events includes the following:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated within the organization
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices and workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group
  - Damage to physical assets: Risk of impact to the Group due to natural disasters including epidemic
  - Clients, Products and Business Practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
  - Business Disruption and System failures: Risk of not planning and testing business continuity and disaster
  - Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The BRMC is an independent sub-committee of the Board of Directors ('BOD') and has the responsibility to ensure the effectiveness of Company's ORMF. With context to Operational Risk Management, the BRMC assist the BOD in fulfilling its oversight responsibilities, set the "tone at the top" and empower Senior Management to contribute to the effectiveness of Operational Risk in the Company. In order to effectively discharge its duties, the BRMC gets update on the progress of Operational Risk activities on a quarterly basis.

7 Fair values measurement

While the Company 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 Islamic financing and investing assets, frequently repriced. For impaired Islamic financing and investing assets, expected cash flows, including anticipated realisation of collateral, were discounted using the original profit rates, considering the time of collection and a provision for the uncertainty of the cash flows.

Fair value hierarchy:

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

- **Level 1:** 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.

7 Fair values measurement *(continued)*

Fair value hierarchy: (continued)

- **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 profit 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.

The Company uses widely recognised 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 categorised 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 Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

7 Fair values 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 2021:

	Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
31 December 2021				
Investments carried at fair value through profit and loss	-	5,751	-	5,751
	-	5,751	-	5,751

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2020				
Investments carried at fair value through profit and loss	-	5,751	-	5,751
	-	5,751	-	5,751

The fair values of the Company'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 values 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 recognised through equity, comprise long term strategic investments in listed and unlisted equities, Tier 1 perpetual instruments and private equity funds. Listed equity and Tier 1 perpetual 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.

Transfers between categories

During the year, there were no transfers between Level 1 and Level 2 fair value measurements.

7 Fair values of financial instruments *(continued)*

Financial instruments not measured at fair value

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

	Fair value through profit or loss AED'000	Fair value through other comprehensive income AED'000	Not measured at fair value AED'000
Assets			
Cash, due from banks and financial institutions	-	-	574,517
Investments securities	5,751	-	
Loans and Advances	-	-	294,402
Islamic financing and investing assets	-	-	30,305
Receivables and other assets	-	-	2,114
	5,751	-	901,339
Liabilities			
Customers' deposits	-	-	131,478
Customers' margins	-	-	63,518
Other liabilities	-	-	134,508
	-	-	329,504

7 Fair values of financial instruments *(continued)*

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

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2020.

	Fair value through profit or loss AED'000	Fair value through other comprehensive income AED'000	Not measured at fair value AED'000
Assets			
Cash, due from banks and financial institutions	-	-	565,011
Investments securities	5,751	-	5,751
Islamic financing and investing assets	-	-	60,381
Receivables and other assets	-	-	1,060
	5,751	-	632,203
Liabilities			
Customers' deposits	-	-	30,501
Customers' margins	-	-	23,519
Other liabilities	-	-	3,719
Provision for employees' end of service benefits	-	-	-
	-	-	57,739

8 Net income on sukuk, interest income and profit from Islamic financing and investing assets

	2021 AED'000	2020 AED'000
Due from banks and other financial institutions	369	830
Murabaha, ijarah and other Islamic financing	2,948	5,183
Sukuk Investments	348	465
	3,665	6,478
Interest income on loans and advances	5,238	-
	8,903	6,478
Profit distributable to depositors	(1,154)	(981)
	7,749	5,497

9 Net fee and commission income

	2021 AED'000	2020 AED'000
Fee and commission income from		
Credit cards related fees	507	910
Corporate finance fees	707	242
Letters of credit and letters of guarantees	869	664
	2,083	1,816
Fee expense on		
Credit cards related expenses	(1,879)	(928)
Net fee and commission income	204	888

10 Net investment income

	2021 AED'000	2020 AED'000
Change in fair value	-	(198)
Net loss from investments carried at fair value through profit or loss	-	(198)
Dividends	-	410
Net income from investments	-	212

11 Salaries and employees' expenses

	2021 AED'000	2020 AED'000
Basic salaries	-	190
Allowances, other benefits and staff cost	-	436
	-	626

12 General and administrative expenses

	2021 AED'000	2020 AED'000
Legal consultancy and other professional fees	412	3,606
Depreciation of furniture and equipment	34	128
Rental expenses	-	50
Repairs and maintenance	129	156
Utilities, communication and licensing expenses	67	131
Sharia Board remuneration	58	57
Other expenses	930	128
	1,630	5,054

13 Cash, due from banks and financial institutions

	2021 AED'000	2020 AED'000
Due from financial institutions	572,074	558,736
Due from banks	1,746	6,194
Cash on hand	697	81
	574,517	565,011
Balances with financial institutions and banks with original maturity of more than 3 months	(5,000)	-
Net cash and cash equivalents	569,517	565,011

14 Loans and Advances

	2021 AED'000	2020 AED'000
Commercial loans		
Commercial overdraft	101,224	-
Other commercial advances	190,147	-
Retail finance		
Executive Finance	299	-
Credit card advances and settlement plans	646	-
Sulfah- National Personnel Loan	5,458	-
Payday Overdraft	6	-
	297,780	-
Less: allowance for impairment		
Allowance for impairment	(3,378)	-
	294,402	-

15 Islamic financing and investing assets

	2021 AED'000	2020 AED'000
Commodities Murabaha	**61,752**	74,993
Covered cards and drawings	**20,673**	34,575
Purchase and lease back	**711**	919
Ijara	**7,005**	7,776
Others	**3,123**	2,987
	93,264	121,250
Less: allowance for impairment		
Allowance for impairment	**(62,959)**	(60,869)
	30,305	60,381

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

	2021 AED'000	2020 AED'000
At 1 January	**60,869**	60,941
Impairment charges for the year	**2,335**	1,825
Recoveries during the year	**(245)**	(1,897)
At 31 December	**62,959**	60,869

The Allowance for impairment include a specific provision of AED 62,601 million *(2020: AED 59.1 million)* for stage 3 Islamic financing and investing assets of the Company.

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

	2021 AED'000	2020 AED'000
Gross Ijara and purchase & lease back		
Less than one year	**5,187**	4,095
Between one and three years	**3,491**	4,327
Between three and five years	**415**	1,401
More than five years	**-**	558
	9,093	10,381
Less: deferred income	**(1,377)**	(1,686)
Net Ijara	**7,716**	8,695

15 Islamic financing and investing assets *(continued)*

Present value of minimum Ijara and purchase and leaseback payments

	2021 AED'000	2020 AED'000
Less than one year	**4,171**	3,309
Between one and three years	**3,019**	3,680
Between three and five years	**526**	1,179
More than five years	**-**	527
	7,716	8,695

16 Investments securities

	At fair value through profit or loss AED'000	Total AED'000
31 December 2021		
Equity instruments:		
- Unquoted	**5,751**	**5,751**
	5,751	**5,751**
Within UAE	**5,751**	**5,751**
	5,751	**5,751**
31 December 2020		
Equity instruments:		
- Unquoted	5,751	5,751
	5,751	5,751
Within UAE	5,751	5,751
	5,751	5,751

The company holds an investment in Tier 1 perpetual instruments which is classified under unquoted equity instruments.

17 Receivables and other assets

	2021 AED'000	2020 AED'000
Profit receivable on wakala deposits	**2,016**	877
Prepaid expenses	**66**	179
Other receivables and deposits	**32**	4
	2,114	1,060

18 Property, fixtures and equipment

	Motor vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Computers AED'000	Total AED'000
Cost:					
At 1 January 2020	55	2,898	797	1,864	5,614
Additions	-	-	-	-	-
At 31 December 2020	55	2,898	797	1,864	5,614
Additions	-	-	-	-	-
At 31 December 2021	**55**	**2,898**	**797**	**1,864**	**5,614**
Accumulated depreciation:					
At 1 January 2020	55	2,850	772	1,774	5,451
Charge for the year		25	13	90	128
At 31 December 2020	55	2,875	785	1,864	5,579
Charge for the year	-	23	11	-	34
At 31 December 2021	55	2,898	796	1,864	5,613
Net book value:					
At 31 December 2021	-	-	1	-	1
At 31 December 2020	-	23	12	-	35

19 Customers' deposits

	2021	2020
	AED'000	AED'000
Wakala deposits	**13,543**	26,721
Time Deposits	**92,289**	-
Current accounts	**24,147**	3,457
Short term investment accounts	**390**	323
Call Accounts	**1,109**	-
	131,478	30,501

Profit on Wakala deposits ranges between 0.75% and 3.25% per annum (*31 December 2020:* 1.00% and 3.1% per annum)

20 Customers' margins

	2021	2020
	AED'000	AED'000
Labour guarantee	**18,187**	20,943
LG margin accounts	**45,331**	2,576
	63,518	23,519

Customers' margins are collaterals held with the Company relating to funded and unfunded facilities granted to customers. The refund of these balances is subject to the closure of the related facilities.

21 Other liabilities

	2021	2020
	AED'000	AED'000
Profit payable	**467**	533
Accruals	**437**	298
Short term assets against Murabaha	**3,053**	595
Due to related party (Note 26)	**127,652**	-
Other payables	**2,899**	2,293
	134,508	3,719

22 Share capital

	2021	2020
	AED'000	AED'000
Authorised, issued and fully paid		
600,000 shares (2020: 600 ,000 shares)		
of AED 1,000 each (2020: AED 1,000 each)	**600,000**	600,000

23 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. The statutory reserve is not available for distribution.

24 Commitments and contingent liabilities

	2021 AED'000	2020 AED'000
Letter of guarantees	**262,164**	54,038
Letter of credit	**1,365**	-
	263,529	54,038

25 Seasonality of results

No income of a seasonal nature was recorded in the income statement for the year ended 31 December 2021 and 31 December 2020.

26 Related party disclosures

In the ordinary course of business, the Company enters into transactions with the shareholders, directors, senior management and their related concerns. Pricing policies and terms of these transactions are mutually agreed between the related parties.

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

	2021 AED'000	2020 AED'000
Balances with financial institutions:		
Finance House P.J.S.C.	**572,074**	558,736

	2021 AED'000	2020 AED'000
Accounts payable to related parties:		
INSURANCE HOUSE - P S C	-	198
Finance House Capital	**10**	-
Financing and investing assets		
Islamic Covered drawings (other related party) *	-	9,449
Loan & Advances		
Members of board of directors	**9,046**	-
Other related Parties	**60,311**	-
Investments carried at fair value through profit and loss		
Finance House Sukuk	**5,751**	5,751

26 Related party disclosures (Continued).

Customers' deposits		
Insurance House	**119**	10,670
Finance House Capital	**13,162**	-
Other related Parties	**3,168**	-
Balance due to related party		
Finance House P.J.S.C (Parent) (Note 21)	**127,652**	-

*Covered drawings are advances to Directors in Finance House P.J.S.C. (shareholder) and Finance House L.L.C. (formerly known as Islamic Finance House P.J.S.C.) The covered drawing are due in July 2021 and carry a profit rate at 6.50 % and are not collateralised.

Transactions with related parties during the period are as follows:

	2021	2020
	AED'000	AED'000
Income from Wakala Deposits with financial institutions	**296**	707
Income from covered drawings and purchase and lease back (other related party)	**129**	136
Interest and commission income		
Members of board of directors	**224**	-
Other related Parties	**1,624**	-
Income from investments carried at fair value through profit or loss	**348**	392
Expense on Wakala Deposit for Insurance House	**185**	229
Management fees	**300**	3,300
Net profit from Fiduciary Wakala Deposits	**73**	123
Contingent liabilities - Letter of guarantees		
FH Capital PJS	**1,009**	-
Insurance House PJS	**21**	-
Other related Parties	**6,472**	-

Contingent liabilities with related parties at the reporting date are as follows:

	2021	2020
	AED'000	AED'000
Letter of guarantees - Finance House P.J.S.C.	**1,723**	8,285

27 Legal proceedings

The Company 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 Company's financial statements if disposed unfavorably.