Finance House P.J.S.C.

Consolidated financial statements

31 December 2022

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

Finance House P.J.S.C.

Consolidated financial statements

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Independent auditors' report

To the Shareholders of Finance House PJSC

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Finance House PJSC ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Qualified Opinion

The Group's investment in Empay LLC, an investment in associate accounted for using the equity method, is carried at AED 34,450 thousands on the consolidated statement of financial position as at 31 December 2022, and the Group's share of Empay LLC's net loss amounting to AED 3,000 thousands is included in the Group's consolidated statement of profit or loss and other comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence on the carrying amount of Group's investment in Empay LLC as at 31 December 2022, the Group's share of Empay LLC's net loss for the year and related disclosures because there was no financial information available for Empay LLC. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants 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 consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be key audit matters to be communicated in our report.

Impairment of loans, advances and Islamic financing

See Note 19 and 20 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group recognized allowances for credit losses in its consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors captured by the models. This is considered a key audit matter, as the determination of ECL involves significant management judgement, estimates, use of complex models and this has a material impact on the consolidated financial statements of the Group.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding and industry practice; • Obtaining an understanding of the ECL accounting estimate including, but not limited to, obtaining information about the Group's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate; • Assessing the design and implementation of selected relevant controls; • Involving our Financial Risk Management ("FRM") specialists, for a selection of models, to assess the reasonableness and appropriateness of the methodology and assumptions, as applicable, used in various components of ECL modelling and the application of expert credit judgment to determine the ECL. This included, where applicable, challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends;

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Key Audit Matters (continued)

Impairment of loans, advances and Islamic financing (continued)

See Note 19 and 20 to the consolidated financial statements (continued)

The key audit matter	How the matter was addressed in our audit
	• Testing the completeness and accuracy of the data used within the ECL calculation; • Re-performing key aspects of the Group's SICR determinations for selected samples of loans, advances and Islamic financing to determine whether a SICR event was appropriately identified; • Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation for a sample of borrowers; • Assessing the adequacy of the Group's disclosures by reference to the requirements of the relevant accounting standards.

Other Information

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Group's investment in Empay LLC as at 31 December 2022 and the Group's share of Empay LLC's net loss for the year. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021, except for the matter disclosed in the Basis for Qualified Opinion section, we report that for the year ended 31 December 2022:

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

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. 32 of 2021;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Chairman's report is consistent with the books of account of the Group;

v) as disclosed in note 18 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2022;

vi) note 37 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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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 Group has contravened during the financial year ended 31 December 2022 any of applicable provisions of the UAE Federal Decree Law No. 32 of 2021 or in respect of the Company, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2022.

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

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Abu Dhabi, United Arab Emirates
Date: 14 February 2023

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Finance House P.J.S.C

Consolidated statement of financial position

as at 31 December

	Note	**2022 AED'000**	2021 AED'000
Assets			
Cash and cash equivalents	*17*	**8,407**	8,096
Due from banks	*17*	**758,080**	593,791
Investment securities	*18*	**268,348**	319,015
Loans and advances	*19*	**2,001,148**	2,082,265
Islamic financing and investing assets	*20*	**22,636**	30,305
Investment in equity accounted investees	*21*	**82,613**	86,881
Interest receivable and other assets	*22*	**107,360**	96,382
Insurance receivables and contract assets	*23*	**247,943**	175,958
Property, fixtures and equipment	*24*	**105,669**	99,260
Intangibles	*25*	**6,705**	6,705
Investment properties	*26*	**4,100**	3,500
Total assets		**3,613,009**	3,502,158
Liabilities and Equity			
Liabilities			
Customers' deposits and margin accounts	*27*	**2,060,674**	1,716,385
Due to banks and other financial institutions	*17*	**30,059**	26,720
Short term borrowings	*28*	**340,000**	441,910
Medium term loan	*28*	**66,667**	100,000
Unearned premiums		**112,657**	81,377
Gross claims outstanding		**91,669**	82,982
Lease liabilities		**537**	1,105
Interest payable and other liabilities	*29*	**141,188**	235,685
Provision for employees' end of service benefits	*30*	**14,371**	14,328
Total liabilities		**2,857,822**	2,700,492

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Consolidated statement of financial position *(continued)*

as at 31 December

	Note	**2022 AED'000**	2021 AED'000
Equity			
Share capital	*31*	**302,838**	302,838
Treasury shares	*32*	**(46,535)**	(29,823)
Employees' share-based payment scheme	*33*	**(1,750)**	(1,750)
Statutory reserve	*34*	**151,671**	151,671
Fair value reserve		**(56,968)**	(21,800)
Retained earnings		**4,072**	2,379
Tier 1 Sukuk	*35*	**276,200**	276,200
Tier 1 Bonds	*35*	**15,000**	15,000
Proposed directors' remuneration		**2,048**	2,251
		646,576	696,966
Non-controlling interests		**108,611**	104,700
Total equity		**755,187**	801,666
Total liabilities and equity		**3,613,009**	3,502,158
Commitments and contingent liabilities	*36*	**509,478**	600,387

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

These consolidated financial statements were authorized and approved for issue by the Board of Directors on 14 February 2023 and signed on their behalf by:

Mr. Mohammed Alqubaisi
Vice Chairman

Mr. T.K. Raman
Chief Executive Officer

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

Finance House P.J.S.C

Consolidated statement of profit or loss

for the year ended 31 December

	Note	**2022 AED'000**	2021 AED'000
Interest income and income from Islamic financing and investing assets	*10*	**193,317**	180,945
Interest expense and profit distributable to depositors	*10*	**(55,069)**	(43,749)
Net interest income and income from Islamic financing and investing assets	*10*	**138,248**	137,196
Fee and commission income	*11*	**31,079**	29,251
Fee and commission expenses	*11*	**(12,768)**	(13,388)
Net fee and commission income	*11*	**18,311**	15,863
Net insurance premium earned		**134,666**	129,840
Net commission paid		**(5,634)**	(9,705)
Net insurance claims incurred		**(89,712)**	(66,636)
Other underwriting expenses		**(6,173)**	(11,608)
Net insurance income		**33,147**	41,891
Net investment income	*12*	**12,363**	25,008
Credit impairment loss on loans and advances	*19*	**(44,009)**	(52,892)
Credit impairment reversal / (loss) on Islamic financing and investing assets	*20*	**5,721**	(200)
Other operating income - net	*13*	**26,258**	26,534
Net operating income		**190,039**	193,400
Salaries and employees related expenses	*14*	**(109,561)**	(102,846)
Depreciation of property, fixtures and equipment	*24*	**(9,154)**	(13,450)
Interest on lease liabilities		**(5)**	(23)
General and administrative expenses	*15*	**(46,266)**	(51,417)
Operating profit for the year		**25,053**	25,664
Share of losses of equity accounted investees	*21*	**(4,268)**	(2,906)
Profit for the year		**20,785**	22,758

Finance House P.J.S.C

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

	Note	**2022 AED'000**	2021 AED'000
Profit for the year		**20,785**	22,758
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Equity investments at FVOCI – net change in fair value		**(19,073)**	59,954
Items that are reclassified subsequently to profit or loss:			
Debt investments at FVOCI – net change in fair value		**(11,083)**	1,083
Other comprehensive (loss) / income for the year		**(30,156)**	61,037
Total comprehensive (loss) / income for the year		**(9,371)**	83,795
Profit attributable to:			
Equity holders of the parent		**16,562**	15,484
Non-controlling interests		**4,223**	7,274
		20,785	22,758
Total comprehensive income attributable to:			
Equity holders of the parent		**(13,282)**	72,677
Non-controlling interests		**3,911**	11,118
		(9,371)	83,795
Basic and diluted loss per share attributable to ordinary shares (AED)	*16*	**(0.01)**	(0.01)

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

Finance House P.J.S.C

Consolidated statement of changes in equity

for the year ended 31 December

	Share Capital AED'000	Treasury shares AED'000	Employees' share-based payment scheme AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Proposed directors' remuneration AED'000	Tier 1 Sukuk AED'000	Tier 1 Bonds AED'000	Attributable to shareholders of the parent AED'000	Non controlling interest AED'000	Total AED'000
Balance at 1 January 2021	**310,050**	**(21,402)**	**(1,750)**	**150,123**	**(76,998)**	**19,324**	**1,957**	**279,850**	**15,000**	**676,154**	**93,582**	**769,736**
Loss on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	(1,995)	1,995	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	15,484	-	-	-	15,484	7,274	22,758
Net changes in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	57,193	-	-	-	-	57,193	3,844	61,037
Total comprehensive income for the year	-	-	-	-	57,193	15,484	-	-	-	72,677	11,118	83,795
Directors remuneration paid	-	-	-	-	-	-	(1,957)	-	-	(1,957)	-	(1,957)
Proposed directors' remuneration	-	-	-	-	-	(2,251)	2,251	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	(5,749)	-	-	-	(5,749)	-	(5,749)
Transfer to statutory reserve	-	-	-	1,548	-	(1,548)	-	-	-	-	-	-
Movement in Tier 1 Sukuk	-	-	-	-	-	-	-	(3,650)	-	(3,650)	-	(3,650)
Write off Treasury shares	(7,212)	(8,421)	-	-	-	(6,630)	-	-	-	(22,263)	-	(22,263)
Tier 1 bonds coupon paid	-	-	-	-	-	(1,238)	-	-	-	(1,238)	-	(1,238)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(17,008)	-	-	-	(17,008)	-	(17,008)
Balance at 31 December 2021	**302,838**	**(29,823)**	**(1,750)**	**151,671**	**(21,800)**	**2,379**	**2,251**	**276,200**	**15,000**	**696,966**	**104,700**	**801,666**

Finance House P.J.S.C

Consolidated statement of changes in equity *(continued)*

for the year ended 31 December

	Share Capital AED'000	Treasury shares AED'000	Employees' share-based payment scheme AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Proposed directors' remuneration AED'000	Tier 1 Sukuk AED'000	Tier 1 Bonds AED'000	Attributable to shareholders of the parent AED'000	Non controlling interest AED'000	Total AED'000
Balance at 1 January 2022	**302,838**	**(29,823)**	**(1,750)**	**151,671**	**(21,800)**	**2,379**	**2,251**	**276,200**	**15,000**	**696,966**	**104,700**	**801,666**
Gain on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	(5,324)	5,324	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	16,562	-	-	-	16,562	4,223	20,785
Net changes in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(29,844)	-	-	-	-	(29,844)	(312)	(30,156)
Total comprehensive income for the year	-	-	-	-	(29,844)	16,562	-	-	-	(13,282)	3,911	(9,371)
Directors' remuneration paid	-	-	-	-	-	-	(2,251)	-	-	(2,251)	-	(2,251)
Proposed director's remuneration	-	-	-	-	-	(2,048)	2,048	-	-	-	-	-
Purchase of treasury shares	-	(16,712)	-	-	-	-	-	-	-	(16,712)	-	(16,712)
Tier 1 bonds coupon paid	-	-	-	-	-	(1,238)	-	-	-	(1,238)	-	(1,238)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(16,907)	-	-	-	(16,907)	-	(16,907)
Balance at 31 December 2022	**302,838**	**(46,535)**	**(1,750)**	**151,671**	**(56,968)**	**4,072**	**2,048**	**276,200**	**15,000**	**646,576**	**108,611**	**755,187**

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

Finance House P.J.S.C

Consolidated statement of cash flows

for the year ended 31 December

	Note	2022 AED'000	2021 AED'000
Cash flows from operating activities			
Profit for the year		**20,785**	22,758
Adjustments for:			
Depreciation of property, fixtures and equipment		**9,154**	13,450
Gain on fair valuation of investment in property		**(600)**	-
Share of loss of equity accounted investees		**4,268**	2,906
Dividend income from investments		**(8,919)**	(10,012)
Loss on disposal of investments carried at fair value through profit or loss		**(7,226)**	(4,169)
Net change in fair value of investments carried at fair value through profit or loss		**3,821**	(11,639)
Loss on disposal of investment carried at amortized cost		**(39)**	-
Net impairment loss on loans and advances		**44,009**	52,892
Impairment (reversal) / loss on Islamic financing and investing assets		**(5,721)**	200
Net provision for employees' end of service benefits		**2,386**	(597)
		61,918	65,789
Changes in:			
Islamic financing and investing assets		**13,390**	29,876
Loans and advances		**37,108**	33,196
Placement with banks maturing above three months		**-**	1,044
Interest receivable and other assets		**(10,978)**	16,467
Insurance receivables and contract assets		**(71,985)**	(64,184)
Customers' deposits and margin accounts		**344,289**	(207,574)
Unearned premiums		**31,280**	2,009
Gross claims outstanding		**8,687**	25,786
Interest payable and other liabilities		**(94,497)**	56,528
Lease liabilities		**(568)**	(2,356)
Cash generated from / (used in) operating activities		**318,644**	(43,419)
Employees' end of service benefits paid		**(2,343)**	(2,285)
Dividend received		**8,919**	10,012
Directors' remuneration paid		**(2,251)**	(1,957)
Net cash generated from / (used in) operating activities		**322,969**	(37,649)
Cash flows from investing activities			
Purchase of investments carried at fair value through other comprehensive income		**(30,189)**	(36,467)
Proceeds from sale of investments carried at fair value through other comprehensive income		**48,000**	62,278
Purchase of investments carried at fair value through profit or loss		**(50,370)**	(49,206)
Proceeds from sale of investments carried at fair value through profit or loss		**54,628**	34,634
Proceeds from sale of investments carried at amortized cost		**1,886**	3,673
Purchase of investments carried at amortized cost		**-**	(1,847)
Purchase of property, fixtures and equipment		**(15,563)**	(18,563)
Disposal of property, fixtures and equipment		**-**	4,425
Net cash generated from / (used in) investing activities		**8,392**	(1,073)

Finance House P.J.S.C

Consolidated statement of cash flows *(continued)*

for the year ended 31 December

	Note	**2022 AED'000**	2021 AED'000
Cash flows from financing activities			
Repayments of short-term borrowings		**(132,910)**	(250,000)
Repayment of Medium-term loans		**(33,333)**	(25,000)
Proceeds from Short Term borrowings		**31,000**	393,750
Proceeds from Medium Term loan		-	100,000
Movement in Tier 1 Sukuk		**-**	(3,650)
Tier 1 SUKUK coupon paid		**(16,907)**	(17,008)
Tier 1 Bond coupon paid		**(1,238)**	(1,238)
Cash dividend paid		**-**	(5,749)
Purchase of treasury shares		**(16,712)**	(29,823)
Net cash (used in) / generated from financing activities		**(170,100)**	161,282
Net increase in cash and cash equivalents		**161,261**	122,560
Cash and cash equivalents at 1 January		**569,167**	446,607
Cash and cash equivalents at 31 December	*17*	**730,428**	569,167

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

1 Legal status and principal activities

Finance House P.J.S.C. ("the Company") is a Public Joint Stock Company incorporated in Abu Dhabi, United Arab Emirates (U.A.E.) in accordance with the provisions of the U.A.E. Federal Commercial Companies Law No. (32) of 2021, the Decretal Federal Law No. 14 of 2018 regarding the Central Bank and Organization of Financial Institution and Activities and under authority of resolutions of the Board of Directors of the U.A.E. Central Bank relating to Finance Companies.

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

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

The Company is listed on the Abu Dhabi Securities Exchange (Ticker: FH).

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

These consolidated financial statements comprise the Company and its subsidiaries listed in note 8 (together referred as "the Group").

The consolidated financial statements were authorized for issue by the Board of Directors on 14 February 2023**.**

2 Basis of preparation

(a) Statement of compliance

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

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015 (as amended). The Company is in compliance with applicable provisions of the UAE Federal Decree Law No. 32 of 2021 as at the date of these financial statements.

2 Basis of preparation *(continued)*

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described in *Note 4* to the financial statements.

3 Significant accounting policies

(a) New and amended standards and interpretations adopted

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

The following amendments to existing standards and framework have been applied by the Group in preparation of these consolidated financial statements. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

Description	**Effective from**
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).	1 January 2022
First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter (Annual improvements to IFRS 1)	1 January 2022
Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities (Annual improvements to IFRS 9)	1 January 2022
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 January 2022

3 Significant accounting policies *(continued)*

(b) Standards and interpretations in issue but not yet effective and has not been adopted early by the Group

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

IFRS 17 Insurance Contracts (effective for accounting period beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied)

IFRS 17 Insurance Contracts (1 January 2023): Once effective IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Group measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users. IFRS 17 applies to insurance contracts (including reinsurance contracts) an entity issues, reinsurance contracts an entity holds and investment contracts with discretionary participation features an entity issues provided it also issues insurance contracts.

The scope of IFRS 17 for the Group is materially consistent with that of IFRS 4. Investment contracts will be measured under IFRS 9. IFRS 17 requires that contracts are divided into groups for the purposes of recognition and measurement. Portfolios of contracts are identified by grouping together contracts which have similar risks and are managed together. These groups are then further divided into groups based on their expected profitability.

Contracts which are onerous at inception cannot be grouped with contracts which are profitable at inception. Contracts which are issued more than one year apart are not permitted to be included within the same group, although there is some relief from this requirement for business in-force at the date of transition under the transitional arrangements.

The standard introduces three measurement approaches, of which two, the general model and the premium allocation approach, are applicable to the Group's business. The main features of these models are the measurement of an insurance contract as the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment, remeasured at each reporting period using current assumptions, and a contractual service margin ('CSM').

The risk adjustment represents the compensation the Group requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk as the obligations under the insurance contract are fulfilled.

The CSM represents the unearned profit of a group of insurance contracts and is recognised in profit or loss as the insurance service is provided to the customer using coverage units. Coverage units are a measurement of the quantum of service provided across the life of the contract and are used to measure the service provided in the reporting period and release a corresponding amount of profit to the income statement. If a group of contracts becomes loss-making after inception the loss is recognised immediately in the statement of profit or loss. This treatment of profits and losses in respect of services is broadly consistent with the principles of IFRS 15 and IAS 37 applicable to other industries.

3 Significant accounting policies *(continued)*

(b) ***Standards and interpretations in issue but not yet effective and has not been adopted early by the Group*** *(continued)*

IFRS 17 Insurance Contracts (effective for accounting period beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied) (continued)

Under the general model the CSM is adjusted for non-economic assumption changes relating to future periods. For certain contracts with participating features the variable fee approach is applied, this allows changes in economic assumptions and experience to adjust the CSM as well as non-economic assumptions, reflecting the variable nature of the entity's earnings driven by investment returns. IFRS 17 requires the standard to be applied retrospectively. Where this is assessed as impracticable the standard allows the application of a simplified retrospective approach or a fair value approach to determine the contractual service margin. The measurement principles set out in IFRS 17 will significantly change the way in which the company measures its insurance contracts and associated reinsurance contracts.

These changes will impact the pattern in which profit emerges when compared to IFRS 4 and add complexity to valuation processes, data requirements and assumption setting. The introduction of IFRS 17 will simplify the presentation of the statement of financial position. It requires the presentation of groups of insurance (or reinsurance) contracts that are in an asset position separately from those in a liability position. The presentation of the statement of comprehensive income will change more significantly with IFRS 17 setting out how components of the profitability of contracts are disaggregated into an insurance service result and insurance finance income/expenses. IFRS 17 also requires extensive disclosures on the amounts recognised from insurance contracts and the nature and extent of risks arising from them.

Premium allocation approach (PAA): The Premium allocation approach is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria.

The Group expects that it will apply the PAA to all contracts because the following criteria are expected to be met at inception.

Insurance contracts and loss-occurring reinsurance contracts: The coverage period of each contract in the Group is one year or less.

Risk-attaching reinsurance contracts: The Group reasonably expects that the resulting measurement of the asset for remaining coverage would not differ materially from the result of applying the accounting policies described above.

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Compared with the current accounting, the Group expects that for certain contracts the IFRS 17 contract boundary requirements will change the scope of cash flows to be included in the measurement of existing recognised contracts, as opposed to future unrecognised contracts. The period covered by the premiums within the contract boundary is the 'coverage period', which is relevant when applying a number of requirements in IFRS 17.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Under IFRS 17 insurance acquisition cash flows are allocated to groups of contracts using systematic and rational methods based on the total premiums for each group.

Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and tested for recoverability, whereas other insurance acquisition cash flows are included in the estimates of the present value of future cash flows as part of the measurement of the related insurance contracts.

3 Significant accounting policies *(continued)*

(b) ***Standards and interpretations in issue but not yet effective and has not been adopted early by the Group*** *(continued)*

IFRS 17 Insurance Contracts (effective for accounting period beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied) (continued)

Impact assessment – Non-Life Insurance

Although the PAA is similar to the Group's current accounting treatment when measuring liabilities for remaining coverage, the following changes are expected in the accounting for Non-life contracts.

Changes from IFRS 4	***Impact on equity on transition to IFRS 17***
Under IFRS 17, the Group will discount the future cash flows when measuring liabilities for incurred claims, unless they are expected to occur in one year or less from the date on which the claims are incurred. The Group does not currently discount such future cash flows	Increase
IFRS 17 requires the fulfilment cash flows to include a risk adjustment for non- financial risk. This is not explicitly allowed for currently.	Decrease
The Group's accounting policy under IFRS 17 to expense eligible insurance acquisition cash flows when they are incurred differs from the current practice under which these amounts are recognised separately as deferred acquisition costs.	Decrease

The Group implementation project continued through 2022 with a focus on finalising methodologies and developing the operational capabilities required to implement the standard including data, systems and business processes. The current focus is on embedding the operational capabilities and determining the transition balance sheet and comparatives required for 2023 reporting.

Since the implementation project is currently ongoing, management believes that it is impractical to determine the amount of the effect of IFRS 17 in the current period.

(c) ***Business combinations***

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Acquisition-related costs are expensed as incurred and included in general, administration and other operating expenses, except if related to the issue of debt or equity securities.

3 Significant accounting policies *(continued)*

(c) ***Business combinations*** *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred or in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(d) ***Subsidiaries***

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

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

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

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

3 Significant accounting policies *(continued)*

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

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

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

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

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

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

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

3 Significant accounting policies (continued)

(d) Investment in equity accounted investees

An associate is an investee over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investment in associates is accounted under the equity method of accounting.

Under the equity method, the investment in an associate is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Company's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

(f) Investment in associate

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

(g) Equity method

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in *Note 3 (n).*

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

(h) Cash and cash equivalents

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

Cash and cash equivalents are non-derivative financial assets carried at amortized cost in the statement of financial position.

3 Significant accounting policies *(continued)*

(i) Financial assets and liabilities

Recognition and initial measurement

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated.

All other financial instruments (excluding regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI – debt investment, FVOCI – equity investment, or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3 Significant accounting policies *(continued)*

(i) ***Financial assets and liabilities*** *(continued)*

Classification and subsequent measurement *(continued)*

Financial assets – Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI")

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.
In making the assessment, the Group considers:

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

3 Significant accounting policies *(continued)*

(i) ***Financial assets and liabilities*** *(continued)*

Classification and subsequent measurement *(continued)*

Financial assets - Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI") *(continued)*

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition

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

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

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

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

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

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

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3 Significant accounting policies *(continued)*

(i) ***Financial assets and liabilities*** *(continued)*

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees receivable as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Group derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised 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 amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3 Significant accounting policies *(continued)*

(i) Financial assets and liabilities (continued)

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial assets or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications set out above to the additional changes.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortized cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, clause 6.4, if the specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the Retained earnings. This impairment reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

Note 5(b)(iv) provides more details of how the expected credit loss allowance is measured.

(j) Financial guarantee contracts and loan commitments

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

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

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

Loan commitments provided by the Group are measured as the amount of the loss allowance calculated as described in *Note 5* (b).

3 Significant accounting policies *(continued)*

(k) Islamic financing and investing assets

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

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

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

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

(l) Property, fixtures and equipment

Recognition and measurement

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

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

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

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

Subsequent costs

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

Depreciation

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

3 Significant accounting policies *(continued)*

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

Depreciation *(continued)*

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

	Years
Building	30
Furniture, fixtures and equipment	4-5
Motor vehicles	4
Computer hardware and software	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.

(m) ***Intangible assets***

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

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

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

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

3 Significant accounting policies *(continued)*

(n) Impairment of non-financial assets

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

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

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

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

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

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

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

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

(o) Investment properties

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

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

3 Significant accounting policies *(continued)*

(o) ***Investment properties*** *(continued)*

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

(p) ***Insurance receivables***

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

(q) ***Reinsurance contracts held***

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

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

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

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

(r) ***Repurchase agreements***

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

3 Significant accounting policies *(continued)*

(s) Operating segment reporting

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

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

(t) Provisions

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

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

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

Special provisions

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

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

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

3 Significant accounting policies *(continued)*

(u) Employees' end of service benefits

Defined contribution plan

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

Defined benefit plan

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

Share-based payments

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

Share capital, other equity and reserves

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

(v) Foreign currencies

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

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

3 Significant accounting policies *(continued)*

(w) Offsetting

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

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

(x) Earnings per share

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

(y) Fair values measurements

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

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

3 Significant accounting policies *(continued)*

(y) ***Fair values measurements*** *(continued)*

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 6.

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

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

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

i. ***Interest***

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

3 Significant accounting policies *(continued)*

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

ii. ***Fee and commission***

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

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

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

iii. ***Murabaha***

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

iv. ***Ijara***

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

v. ***Wakala***

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

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

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

vii. ***Dividend income***

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

viii. ***Insurance income***

Insurance contracts

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

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

3 Significant accounting policies *(continued)*

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

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

Premiums earned

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

Commissions earned

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

Claims

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

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

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

4 Use of estimates and judgements

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

(a) ***Judgments***

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

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

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

4 Use of estimates and judgements *(continued)*

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

ii. ***Classification of properties***

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

(b) Estimates and assumptions

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

i. Fair value of investment properties

The Group engaged an independent valuation specialist to assess fair value for its investment properties using a valuation methodology based on the 'comparable market value method'. The key assumptions used to determine the fair value of investment properties and sensitivity analyses are disclosed in Notes 6 and 26.

ii. Fair value of unquoted investments

As described in Note 6, 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 6*.

iii. Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in *Note 5(b)*.

4 Use of estimates and judgements *(continued)*

(b) Estimates and assumptions *(continued)*

iii. Measurement of the expected credit loss allowance *(continued)*

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

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

iv. Provision for outstanding claims

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

5 Financial risk management

(a) Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

i. Risk management structure

The overall risk management responsibility lies with the Board of Directors of the Group, under which there is an Investment and Credit Committee (ICC) , Board Risk Management Committee and the Group Chief Risk Officer who take responsibility for identifying and controlling the risks.

Board of Directors

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

5 Financial risk management *(continued)*

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

Audit Committee

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

Asset Liability Committee (ALCO)

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

Investment and Credit Committee (ICC)

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

Board Risk Management Committee (BRMC)

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 Group, the risk management and compliance framework and the governance structure, that supports it.

5 Financial risk management *(continued)*

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

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

Risk Management Department (RMD)

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

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

Treasury

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

Internal Audit

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

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

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

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

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

5 Financial risk management *(continued)*

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

iii. ***Risk mitigation***

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

iv. ***Risk concentration***

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

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

Details of the composition of the loans, advances and Islamic financing and investing portfolio are provided in notes 19 and 20. Information on credit risk is provided in note 5(b).

v. ***Risk assessment***

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

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

(b) ***Credit risk***

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

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

The ECL recorded on loans and advances measured at amortized cost and Islamic financing and investing assets measured at amortized cost has been disclosed in note 19 and 20 respectively.

5 Financial risk management *(continued)*

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

i. ***Settlement risk***

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

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

ii. ***Write-off policy***

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

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2022 was AED 3.08 million *(2021: AED 12.08 million)*. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

iii. ***Modification of financial assets***

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with accounting policy set out in Note 3.

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

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

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

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

5 Financial risk management *(continued)*

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

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

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

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

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

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

iv. ***Credit risk measurement***

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

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

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

5 Financial risk management *(continued)*

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

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

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.

Retail

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

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

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

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

Wholesale

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

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.

5 Financial risk management *(continued)*

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

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

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

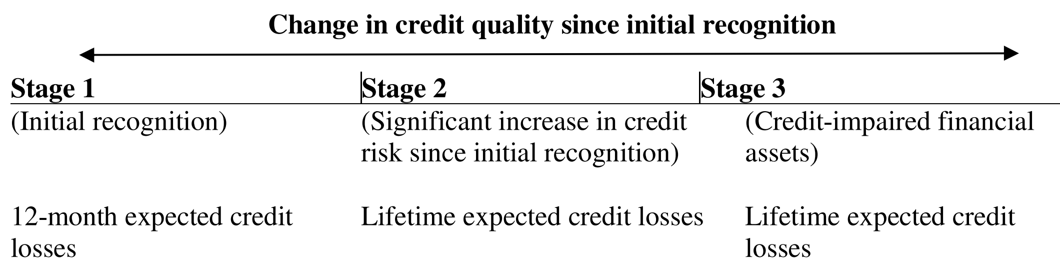
- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

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

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to following note for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

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

The following diagram summarizes the impairment requirements under IFRS 9:



Change in credit quality since initial recognition

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

<u>Significant increase in credit risk (SICR)</u>

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

<u>Quantitative criteria</u>

Corporate Loans:
For Corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following factors: -
- Loan facilities restructured in the last 12 months;
- Loan facilities that are past due for 30 days and above but less than 90 days;
- Actual or expected change in external ratings and / or internal ratings

5 Financial risk management *(continued)*

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

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

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:
- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

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

Qualitative criteria:

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

Backstop:

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

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

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

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

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

5 Financial risk management *(continued)*

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

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

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

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

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

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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

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

5 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 amortizing products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization based on analysis of the Group's recent default data.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. 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 calculation of ECL incorporate forward-looking information.

5 Financial risk management *(continued)*

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

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

In addition to the base economic scenario, the Group's Credit risk team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure plausible events are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2022 and 31 December 2022, for all portfolios the Group concluded that three scenarios representing the Downturn, Normal and Growth cases have been determined appropriate for capturing forward looking component in ECL. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The weightings assigned to each macro-economic scenario as at 31 December 2022, is as per the below table:

Economic Scenarios		
Downturn	Normal	Growth
50%	30%	20%

The assessment of SICR is performed based on credit risk assessment following CBUAE rules and management assessment under each of the base, and the other scenarios, multiplied by the associated scenario weightings. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a 12 month ECL (Stage 1), or lifetime ECL (Stage 2). These ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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

5 Financial risk management *(continued)*

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

ix. ***Credit risk exposure***

Credit quality analysis

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

	2022			
	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	868,600	42,796	-	911,396
Grading 2	677,802	328,819	-	1,006,621
Grading 3	-	1,404	116,256	117,660
Grading 4	-	-	82,384	82,384
Grading 5	-	-	327,126	327,126
	1,546,402	373,019	525,766	2,445,187
Loss allowance	(22,617)	(49,365)	(372,057)	(444,039)
Carrying amount	1,523,785	323,654	153,709	2,001,148
Islamic financing and investing assets				
Grading 1	5,185	56	-	5,241
Grading 2	5,579	2,949	-	8,528
Grading 3	-	29	4,970	4,999
Grading 4	-	-	998	998
Grading 5	-	-	63,486	63,486
	10,764	3,034	69,454	83,252
Loss allowance	(193)	(101)	(60,322)	(60,616)
Carrying amount	10,571	2,933	9,132	22,636

5 Financial risk management *(continued)*

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

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

Credit quality analysis *(continued)*

	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	1,466,141	330,818	-	1,796,959
Grading 2	60,458	82,892	-	143,350
Grading 3	-	-	151,070	151,070
Grading 4	-	-	67,589	67,589
Grading 5	-	-	334,848	334,848
	1,526,599	413,710	553,507	2,493,816
Loss allowance	(20,387)	(28,562)	(362,602)	(411,551)
Carrying amount	1,506,212	385,148	190,905	2,082,265
Islamic financing and investing assets				
Grading 1	16,181	84	-	16,265
Grading 2	133	4,578	-	4,711
Grading 3	-	-	4,803	4,803
Grading 4	-	-	982	982
Grading 5	-	-	66,503	66,503
	16,314	4,662	72,288	93,264
Loss allowance	(397)	(227)	(62,335)	(62,959)
Carrying amount	15,917	4,435	9,953	30,305

5 Financial risk management *(continued)*

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

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

Credit quality analysis *(continued)*

	2022			
	ECL staging			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	**122**	**-**	**-**	**122**
Guarantees	**497,584**	**6,578**	**945**	**505,107**
Loss allowance	**(5,099)**	**(757)**	**(581)**	**(6,437)**
Carrying amount	**492,607**	**5,821**	**364**	**498,792**
Credit risk exposures relating to on-balance sheet assets				
Cash and balances with the UAE Central Bank	**370,699**	**-**	**-**	**370,699**
Due from banks at investment grade	**395,788**	**-**	**-**	**395,788**
Financial assets measured at amortised cost at investment grade	**-**	**-**	**-**	**-**
	766,487	**-**	**-**	**766,487**

5 Financial risk management *(continued)*

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

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

Credit quality analysis *(continued)*

	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
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	1,971	-	-	1,971
Guarantees	586,081	5,822	2,264	594,167
Loss allowance	(1,671)	(51)	(1,426)	(3,148)
Carrying amount	586,381	5,771	838	592,990
Credit risk exposures relating to on-balance sheet assets				
Cash and balances with the UAE Central Bank	157,844	-	-	157,844
Due from banks at investment grade	444,043	-	-	444,043
Financial assets measured at amortised cost at investment grade	1,847	-	-	1,847
	603,734	-	-	603,734

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

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

5 Financial risk management *(continued)*

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

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

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

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

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

	Loans and advances and investment products	
	2022	2021
	AED'000	AED'000
Against individually impaired loans and advances:		
Property	**70,354**	60,977
Equities	**70**	2,096
Cash	**5,628**	5,889
Others	**19,344**	-
Total against Individually impaired	**95,396**	68,962
Against loans and advances not impaired:		
Property	**675,279**	764,811
Equities	**214,366**	189,383
Cash	**259,774**	354,661
Others	**2,479**	28,812
Total against not impaired	**1,151,898**	1,337,667

xi. ***Loss allowance***

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized during the year;
- 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;

5 Financial risk management *(continued)*

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

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

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

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

	2022			
	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	**20,387**	**28,562**	**362,602**	**411,551**
Transfers				
Transfer from Stage 1 to Stage 2	**(225)**	**225**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(4,368)**	**-**	**4,368**	**-**
Transfer from Stage 2 to Stage 1	**1,616**	**(1,616)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(4,837)**	**4,837**	**-**
Transfer from Stage 3 to Stage 1	**820**	**-**	**(820)**	**-**
Transfer from Stage 3 to Stage 2	**-**	**27,367**	**(27,367)**	**-**
New financial assets originated	**2,551**	**2,408**	**-**	**4,959**
Net remeasurement of loss allowance	**5,083**	**809**	**23,445**	**29,337**
Reversal of no longer required impairment charges	**(3,247)**	**(3,553)**	**(3,316)**	**(10,116)**
Changes in PDs/LGDs/EADs	**-**	**-**	**8,308**	**8,308**
Loss allowance as at 31 December 2022	**22,617**	**49,365**	**372,057**	**444,039**
Islamic financing and investing assets				
Loss allowance as at 1 January	**397**	**227**	**62,335**	**62,959**
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	**-**	**(34)**	**34**	**-**
Transfer from Stage 3 to Stage 1	**-**	**-**	**-**	**-**
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**32**	**7**	**1,070**	**1,109**
Reversal of no longer required impairment charges	**(236)**	**(100)**	**(3,116)**	**(3,452)**
Loss allowance as at 31 December 2022	**193**	**100**	**60,323**	**60,616**

5 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
Loans and advances				
Loss allowance as at 1 January	12,161	41,961	325,132	379,254
Transfers				
Transfer from Stage 1 to Stage 2	(61)	80	-	19
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	270	(785)	-	(515)
Transfer from Stage 2 to Stage 3	-	(19,467)	38,699	19,232
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	14	-	-	14
Net remeasurement of loss allowance	8,088	9,039	(656)	16,471
Reversal of no longer required impairment charges	(85)	(2,266)	(573)	(2,924)
Loss allowance as at 31 December 2021	20,387	28,562	362,602	411,551
Islamic financing and investing assets				
Loss allowance as at 1 January	407	1,332	59,131	60,870
Transfers				
Transfer from Stage 1 to Stage 2	(48)	56	-	8
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	-	-	-	-
Net remeasurement of loss allowance	61	(192)	1,153	1,022
Reversal of no longer required impairment charges	(23)	(19)	-	(42)
Loss allowance as at 31 December 2021	397	227	62,335	62,959

5 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 2022:

	2022			
	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 2022	**1,526,597**	**413,711**	**553,508**	**2,493,816**
Transfers				
Transfer from Stage 1 to Stage 2	**(3,758)**	**3,758**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(25,217)**	**-**	**25,217**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(17,126)**	**17,126**	**-**
Transfer from Stage 3 to Stage 2	**-**	**52,808**	**(52,808)**	**-**
Transfer from Stage 2 to Stage 1	**7,959**	**(7,959)**	**-**	**-**
New financial assets originated	**214,753**	**8,567**	**-**	**223,320**
Repayments during the year	**(173,932)**	**(80,740)**	**(14,195)**	**(268,867)**
Reversal of no longer required impairment charges	**-**	**-**	**(3,082)**	**(3,082)**
Gross carrying amount as at 31 December 2022	**1,546,402**	**373,019**	**525,766**	**2,445,187**
Islamic financing and investing activities				
Gross carrying amount as at 1 January 2022	**16,314**	**4,662**	**72,288**	**93,264**
Transfers	**-**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(138)**	**138**	**-**
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 2 to Stage 1	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Repayments during the year	**(5,550)**	**(1,490)**	**(2,972)**	**(10,012)**
Gross carrying amount as at 31 December 2022	**10,764**	**3,034**	**69,454**	**83,252**

5 Financial risk management *(continued)*

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

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

	2022			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Cash and balances with the UAE Central Bank	**370,699**	**-**	**-**	**370,699**
Due from banks at investment grade	**395,788**	**-**	**-**	**395,788**
Financial assets measured at amortised cost at investment grade	**-**	**-**	**-**	**-**
	766,487	**-**	**-**	**766,487**

There were no transfers between the stages during the year ended 31 December 2022.

	2022			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Off-balance sheet items				
Gross carrying amount as at 1 January 2022	**589,529**	**5,771**	**838**	**596,138**
Transfers	**-**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**
New financial assets originated	**8,655**	**973**	**108**	**9,736**
Repayments during the year	**(100,478)**	**(166)**	**(1)**	**(100,645)**
Other Movement	**-**	**-**	**-**	**-**
Gross carrying amount as at 31 December 2022	**497,706**	**6,578**	**945**	**505,229**

5 Financial risk management *(continued)*

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

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

	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	1,522,765	515,139	509,501	2,547,405
Transfers				
Transfer from Stage 1 to Stage 2	(2,910)	11,570	-	8,660
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(77,161)	77,186	25
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	21,863	(22,782)	-	(919)
New financial assets originated	18,715	-	-	18,715
Repayments during the year	(31,073)	(13,246)	-	(44,319)
Other movements / write offs	(2,763)	948	(32,606)	(34,421)
Reversal of no longer required impairment charges	-	(757)	(573)	(1,330)
Gross carrying amount as at 31 December 2021	1,526,597	413,711	553,508	2,493,816
Islamic financing and investing activities				
Gross carrying amount as at 1 January 2021	39,686	14,770	66,794	121,250
Transfers				
Transfer from Stage 1 to Stage 2	(691)	757	-	66
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 2	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	(5,714)	(4,674)	-	(10,388)
Other movements / Write offs	(16,967)	(2,387)	1,392	(17,962)
Reversal of no longer required impairment charges	-	-	-	-
Gross carrying amount as at 31 December 2021	16,314	4,662	72,288	93,264

5 Financial risk management *(continued)*

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

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

	2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Cash and balances with the UAE Central Bank	157,844	-	-	157,844
Due from banks at investment grade	444,043	-	-	444,043
Financial assets measured at amortised cost at investment grade	1,847	-	-	1,847
	603,734	-	-	603,734

There were no transfers between the stages during the year ended 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
Off-balance sheet items				
Gross carrying amount as at 1 January 2021	722,668	13,344	32,130	768,142
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	15,962	-	-	15,962
Repayments during the year	(135,667)	(15)	-	(135,682)
Other Movement	(13,434)	(7,558)	(31,292)	(52,284)
Gross carrying amount as at 31 December 2021	589,529	5,771	838	596,138

5 Financial risk management *(continued)*

(b) Credit risk (continued)

xiii. Concentration of credit risk

The Group 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		**Islamic financing and investing activities**	
	2022	**2021**	**2022**	**2021**
Sector	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Construction	**151,899**	156,477	**6,836**	6,793
Services	**254,627**	313,851	**9,025**	9,347
Trade	**197,454**	239,332	**1,534**	652
Real Estate	**296,587**	362,578	**5,000**	5,000
Manufacturing	**96,274**	119,583	**-**	973
Transport & Storage	**37,766**	8,389	**-**	-
Others	**1,410,580**	1,293,606	**60,857**	70,499
	2,445,187	2,493,816	**83,252**	93,264

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations from financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

5 Financial risk management *(continued)*

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

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

The table below summarizes the maturity profile of the Group's assets and liabilities at 31 December 2022 based on contractual maturities.

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS					
Cash and balances with U.A.E. Central Bank	**370,699**	**-**	**-**	**-**	**370,699**
Due from banks and financial institutions	**395,788**	**-**	**-**	**-**	**395,788**
Loans and advances	**1,239,519**	**286,006**	**475,623**	**-**	**2,001,148**
Islamic financing and investing assets	**15,887**	**960**	**5,789**	**-**	**22,636**
Investments, including associate	**200,666**	**17,079**	**133,216**	**-**	**350,961**
Insurance receivables and contract assets	**226,170**	**11,198**	**10,575**	**-**	**247,943**
Other assets	**22,914**	**-**	**-**	**-**	**22,914**
Financial assets	**2,471,643**	**315,243**	**625,203**	**-**	**3,412,089**
Non-financial assets	**-**	**84,446**	**109,769**	**6,705**	**200,920**
Total assets	**2,471,643**	**399,689**	**734,972**	**6,705**	**3,613,009**
LIABILITIES					
Due to banks	**30,059**	**-**	**-**	**-**	**30,059**
Customers' deposits and margin accounts	**1,564,210**	**339,902**	**156,562**	**-**	**2,060,674**
Short term borrowings and medium-term loans	**116,667**	**231,667**	**58,333**	**-**	**406,667**
Unearned premiums	**112,657**	**-**	**-**	**-**	**112,657**
Gross claims outstanding	**91,669**	**-**	**-**	**-**	**91,669**
Lease liabilities	**-**	**537**	**-**	**-**	**537**
Other liabilities	**89,667**	**23,844**	**-**	**-**	**113,511**
Financial liabilities	**2,004,929**	**595,950**	**214,895**	**-**	**2,815,774**
Non-financial liabilities	**27,677**	**-**	**-**	**14,371**	**42,048**
Total liabilities	**2,032,606**	**595,950**	**214,895**	**14,371**	**2,857,822**
Off balance sheet					
Contingent liabilities	**458,406**	**32,181**	**14,642**	**-**	**505,229**
Commitments	**4,249**	**-**	**-**	**-**	**4,249**
Total	**462,655**	**32,181**	**14,642**	**-**	**509,478**

5 Financial risk management *(continued)*

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

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

The maturity profile of the Group's assets and liabilities at 31 December 2021 was as follows:

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS					
Cash and balances with U.A.E. Central Bank	157,844	-	-	-	157,844
Due from banks and financial institutions	444,043	-	-	-	444,043
Loans and advances	1,261,254	176,983	644,028	-	2,082,265
Islamic financing and investing assets	23,556	960	5,789	-	30,305
Investments, including associate	240,242	19,237	146,417	-	405,896
Insurance receivables and contract assets	157,648	9,732	8,578	-	175,958
Other assets	19,336	-	-	-	19,336
Financial assets	2,303,923	206,912	804,812	-	3,315,647
Non-financial assets	-	77,046	102,760	6,705	186,511
Total assets	2,303,923	283,958	907,572	6,705	3,502,158

5 Financial risk management *(continued)*

(d) ***Liquidity risk*** *(continued)*

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

The maturity profile of the Group's assets and liabilities at 31 December 2021 was as follows:

LIABILITIES					
Due to banks	26,720	-	-	-	26,720
Customers' deposits and margin accounts	673,975	592,567	449,843	-	1,716,385
Short term borrowings and medium-term loans	107,510	267,733	166,667	-	541,910
Unearned premiums	81,377	-	-	-	81,377
Gross claims outstanding	82,982	-	-	-	82,982
Lease liabilities	-	1,105	-	-	1,105
Other liabilities	197,359	6,183	-	-	203,542
Financial liabilities	1,169,923	867,588	616,510	-	2,654,021
Non-financial liabilities	24,372	-	-	14,328	38,700
Total liabilities	1,194,295	867,588	616,510	14,328	2,692,721
Off balance sheet					
Contingent liabilities	546,508	33,273	16,357	-	596,138
Commitments	4,249	-	-	-	4,249
Total	550,757	33,273	16,357	-	600,387

5 Financial risk management *(continued)*

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

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

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

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

(e) *Market risk*

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group 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 Group core business strategies, products and services to its customers, that invariably create interest rate risk to 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 Group'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.

5 Financial risk management *(continued)*

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

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 Group's market risk profile transparent to senior management, the Board of Directors and Regulators.

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 Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

Statistical risk measures

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group 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 Group 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 Group uses three major methods for calculation of VaR. They are (1) Historical Simulation Method, (2) Parametric Approach and (3) Monte Carlo Simulation.

5 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 2022		**Market risk measure**	
	Carrying amount AED'000	**Trading portfolio AED'000**	**Non-trading portfolio AED'000**
Assets subject to market risk			
Cash and balances with U.A.E. Central Bank	**370,699**	**-**	**370,699**
Due from banks and financial institutions	**395,788**	**-**	**395,788**
Loans and advances	**2,001,148**	**-**	**2,001,148**
Islamic financing and investing assets	**22,636**	**-**	**22,636**
Investments, including associate	**350,961**	**58,832**	**292,129**
Insurance receivables and contract assets	**247,943**	**-**	**247,943**
Interest receivable and other assets	**107,360**	**-**	**107,360**
Liabilities subject to market risk			
Due to banks	**30,059**	**-**	**30,059**
Customers' deposits and margin accounts	**2,060,674**	**-**	**2,060,674**
Short term borrowings and medium-term loans	**406,667**	**-**	**406,667**
Unearned premiums	**112,657**	**-**	**112,657**
Gross claims outstanding	**91,669**	**-**	**91,669**
Lease liabilities	**537**	**-**	**537**
Interest payable and other liabilities	**141,188**	**-**	**141,188**

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 and balances with U.A.E. Central Bank	157,844	-	157,844
Due from banks and financial institutions	444,043	-	444,043
Loans and advances	2,082,265	-	2,082,265
Islamic financing and investing assets	30,305	-	30,305
Investments, including associate	405,896	59,685	346,211
Insurance receivables and contract assets	175,958	-	175,958
Other assets	96,382	-	96,382
Liabilities subject to market risk			
Due to banks	26,720	-	26,720
Customers' deposits and margin accounts	1,716,385	-	1,716,385
Short term borrowings and medium-term loans	541,910	-	541,910
Unearned premiums	81,377	-	81,377
Gross claims outstanding	82,982	-	82,982
Lease liabilities	1,105	-	1,105
Other liabilities	235,685	-	235,685

5 Financial risk management *(continued)*

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

i. ***Interest rate risk***

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is exposed to interest rate risk on its interest-bearing assets and liabilities.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Group's profit for the year, based on the floating rate financial assets and liabilities held at 31 December 2022.

	Equity	
Cash flow sensitivity	**1% increase AED'000**	**1% decrease AED'000**
31 December 2022	**737**	**(3,917)**
31 December 2021	6,704	(5,553)

ii. ***Currency risk***

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

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

5 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 Group's investment portfolio.

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

	Equity	
	5% increase AED'000	**5% decrease AED'000**
31 December 2022		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	**1,753**	**(1,753)**
Dubai Financial Market Index	**1,188**	**(1,188)**
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	**5,001**	**(5,001)**
Dubai Financial Market Index	**1,241**	**(1,241)**
Unquoted investments	**2,257**	**(2,257)**
Cash flow sensitivity	**11,440**	**(11,440)**
31 December 2021		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	1,791	(1,791)
Dubai Financial Market Index	1,194	(1,194)
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	6,617	(6,617)
Dubai Financial Market Index	1,640	(1,640)
Unquoted investments	2,298	(2,298)
Cash flow sensitivity	13,540	(13,540)

5 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 Group and can expose the Group to potentially large losses, legal suits, regulatory criticism and reputational damage.

The Group 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 Group 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 Group 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 Group 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.

(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

5 Financial risk management *(continued)*

(e) ***Operational risk*** *(continued)*

(iii) ***Operational risk identification and management*** *(continued)*

- 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 Group'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 Group. In order to effectively discharge its duties, the BRMC gets update on the progress of Operational Risk activities on a quarterly basis.

(f) ***Insurance risk***

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

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

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

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

Credit Risk related to insurance business

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

5 Financial risk management *(continued)*

(g) Insurance risk

Credit Risk related to insurance business (continued)

Key areas where the Group is exposed to credit risk related to insurance business are:

- Re-insurers' share of insurance liabilities.
- Amounts due from reinsurers in respect of claims already paid.
- Amounts due from insurance contract holders.
- Amounts due from insurance intermediaries.
- Amounts due from banks for its balances and fixed deposits.

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

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

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

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

6 Fair value measurement

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

6 Fair value measurement *(continued)*

Fair value hierarchy:

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

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

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

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

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

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

6 Fair value measurement *(continued)*

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2022:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value				
Investment properties	-	-	4,100	4,100
At fair value through profit or loss				
Quoted equities	58,832	-	-	58,832
Quoted debt instruments	-	-	-	-
	58,832	-	-	58,832
At fair value through other comprehensive income				
Quoted equities	129,779	-	-	129,779
Quoted debt instruments	33,864	-	-	33,864
Unquoted equities	-	11,294	33,849	45,143
Investment in managed funds	-	730	-	730
	163,643	12,024	33,849	209,516
Assets for which fair value is disclosed				
Investment carried at amortized cost	-	-	-	-

6 Fair value measurement *(continued)*

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2021:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value				
Investment properties	-	-	3,500	3,500
At fair value through profit or loss				
Quoted equities	59,685	-	-	59,685
Quoted debt instruments	-	-	-	-
-				
	59,685	-	-	59,685
At fair value through other comprehensive income				
Quoted equities	173,432	-	-	173,432
Quoted debt instruments	37,003	-	-	37,003
Unquoted equities	-	11,294	34,673	45,967
Investment in managed funds	-	1,081	-	1,081
	210,435	12,375	34,673	257,483
Assets for which fair value is disclosed				
Investment carried at amortized cost	**-**	**-**	1,847	1,847

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

Investments carried at fair value through profit or loss

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

6 Fair value measurement *(continued)*

Investments carried at fair value through other comprehensive income

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

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

	Valuation technique	**Significant unobservable inputs to valuation**	**Sensitivity of the input to fair value**
Unquoted equities	EV/EBITDA, EV/Revenue, PE and P/B	Average of all four techniques	Increase / (decrease) in all four Multiples by 1 would result in increase / (decrease) in fair value by AED 383 thousand on average

PE Multiple is derived from comparable companies.

The effect of unobservable inputs on fair value measurement

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

	Effect on OCI	
Cash flow sensitivity	**+1% Favourable AED'000**	**-1% (Unfavourable) AED'000**
31 December 2022		
Unquoted equities at fair value through OCI	**459**	**(459)**
31 December 2021		
Unquoted equities at fair value through OCI	470	(470)

6 Fair value measurement *(continued)*

Transfers between categories

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

	Unquoted equities at fair value through other comprehensive income	
	2022	2021
	AED'000	AED'000
Balance at 1 January	**34,673**	42,398
Gain / (Loss) in OCI	**(824)**	(3,868)
Disposals	**-**	(3,857)
Balance at 31 December	**33,849**	34,673

6 Fair value measurement *(continued)*

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

	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 balances	-	-	8,407
Due from banks	-	-	758,080
Investment securities	58,832	209,516	-
Loans and advances	-	-	2,001,148
Islamic financing and investing assets	-	-	22,636
Investment in associates	-	-	82,613
Insurance receivables and contract assets	-	-	247,943
Interest receivable and other assets	-	-	107,360
	58,832	209,516	3,228,187
Liabilities			
Customers' deposits and margin accounts	-	-	2,060,674
Due to banks and other financial institutions	-	-	30,059
Short term borrowings	-	-	340,000
Medium term loan	-	-	66,667
Unearned premiums	-	-	112,657
Gross claims outstanding	-	-	91,669
Lease liabilities	-	-	537
Interest payable and other liabilities	-	-	141,188
Provision for employees' end of service benefits	-	-	14,371
	-	-	2,857,822

6 Fair value measurement *(continued)*

The table below sets out the Group'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 balances	-	-	8,096
Due from banks	-	-	593,791
Investment securities	59,685	257,483	1,847
Loans and advances	-	-	2,082,265
Islamic financing and investing assets	-	-	30,305
Investment in associates	-	-	86,881
Insurance receivables and contract assets	-	-	175,958
Interest receivable and other assets	-	-	96,382
	59,685	257,483	3,075,525
Liabilities			
Customers' deposits and margin accounts	-	-	1,716,385
Due to banks and other financial institutions	-	-	26,720
Short term borrowings	-	-	441,910
Medium term loan	-	-	100,000
Unearned premiums	-	-	81,377
Gross claims outstanding	-	-	82,982
Lease liabilities	-	-	1,105
Interest payable and other liabilities	-	-	235,685
Provision for employees' end of service benefits	-	-	14,328
	-	-	2,700,492

7 Capital adequacy

Capital management

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

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

	2022	2021
	AED'000	AED'000
Total capital base	**820,758**	841,069
Risk weighted assets:		
Statement of financial position items	**3,000,855**	2,962,247
Off statement financial position exposures	**131,155**	162,962
Total risk weighted assets	**3,132,010**	3,125,209
Total assets ratio (%)	**26.21%**	26.91%

8 *Subsidiaries*

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

Name of subsidiary	**Country of incorporation**	**Ownership interest %**		**Principal activity**
		2022	2021	
Finance House L.L.C.	U.A.E.	**100**	100	Financing services
Insurance House P.S.C.	U.A.E.	**45.61**	45.61	Insurance
Finance House Securities Co L.L.C.	U.A.E.	**70**	70	Brokerage
F H Capital P.J.S.	U.A.E.	**100**	100	Investment and asset Management
F.H. Services	U.A.E.	**100**	100	Services

9 Segment information

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

(i) Commercial and retail financing, which principally provides loans and other credit facilities for institutional and individual customers.
(ii) Investment, which involves the management of the Group's investment portfolio and its treasury activities.
(iii) Insurance, which involves one of the Group's subsidiaries providing non-life insurance services.

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

Finance House P.J.S.C.

Notes to the consolidated financial statements

9 Segment information *(continued)*

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

31 December 2022	Commercial and retail financing AED'000	Investment AED'000	Insurance AED'000	Others AED'000	Unallocated AED'000	Total AED'000
Interest income and income from Islamic financing and investing assets	160,992	8,444	1,801	22,080	-	193,317
Interest expense and profit distributable to depositors	(24,949)	(18,138)	-	(11,982)	-	(55,069)
Net fee and commission income	12,040	-	-	6,271	-	18,311
Net income from investment	-	12,363	-	-	-	12,363
Net insurance premium earned	-	-	134,666	-	-	134,666
Net commission paid	-	-	(89,712)	-	-	(89,712)
Net insurance claims incurred	-	-	(5,634)	-	-	(5,634)
Other underwriting income	-	-	(6,173)	-	-	(6,173)
Net insurance income	-	-	33,147	-	-	33,147
Share of results of an associate	-	(4,268)	-	-	-	(4,268)
Other operating income	25,327	920	-	11	-	26,258
Total segment revenue	173,410	(679)	34,948	16,380	-	224,059
Depreciation of property, fixtures and equipment	(7,414)	(194)	(1,365)	(181)	-	(9,154)
Other expenses and charges	(39,934)	(2,578)	(37,958)	(10,024)	(65,338)	(155,832)
Total expenses and other charges	(47,348)	(2,772)	(39,323)	(10,205)	(65,338)	(164,986)
Profit / (loss) for the year before impairment	126,062	(3,451)	(4,375)	6,175	(65,338)	59,073
Net impairment charges on loans and advances	(44,009)	-	-	-	-	(44,009)
Net impairment reversal on Islamic financing and investing assets	5,721	-	-	-	-	5,721
Net profit/(loss) for the year	87,774	(3,451)	(4,375)	6,175	(65,338)	20,785
Segmental assets	2,036,687	769,275	459,832	347,215	-	3,613,009
Segmental liabilities	2,027,239	488,060	308,624	33,899	-	2,857,822
Additions to non-current assets during the year	12,917	1,516	1,113	17	-	15,563

Finance House P.J.S.C.

Notes to the consolidated financial statements

9 Segment information *(continued)*

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

31 December 2021	Commercial and retail financing AED'000	Investment AED'000	Insurance AED'000	Others AED'000	Unallocated AED'000	Total AED'000
Interest income and income from Islamic financing and investing assets	160,726	4,066	2,893	13,260	-	180,945
Interest expense and profit distributable to depositors	(30,014)	(8,626)	-	(5,109)	-	(43,749)
Net fee and commission income	12,423	-	-	3,440	-	15,863
Net income from investment	-	25,008	-	-	-	25,008
Net insurance premium earned	-	-	129,840	-	-	129,840
Net commission paid	-	-	(9,705)	-	-	(9,705)
Net insurance claims incurred	-	-	(66,636)	-	-	(66,636)
Other underwriting income	-	-	(11,608)	-	-	(11,608)
Net insurance income	-	-	41,891	-	-	41,891
Share of results of an associate	-	(2,906)	-	-	-	(2,906)
Other operating income	26,470	3	19	42	-	26,534
Total segment revenue	169,605	17,545	44,803	11,633	-	243,586
Depreciation of property, fixtures and equipment	(11,356)	(200)	(1,653)	(241)	-	(13,450)
Other expenses and charges	(26,966)	(2,385)	(40,362)	(9,091)	(75,482)	(154,286)
Total expenses and other charges	(38,322)	(2,585)	(42,015)	(9,332)	(75,482)	(167,736)
Profit / (loss) for the year before impairment	131,283	14,960	2,788	2,301	(75,482)	75,850
Net impairment charges on loans and advances	(13,450)	-	-	-	-	(52,892)
Net impairment charges on Islamic financing and investing assets	(154,286)	-	-	-	-	(200)
Net profit / (loss) for the year	(167,736)	14,960	2,788	2,301	(75,482)	22,758
Segmental assets	1,924,585	846,543	385,659	345,371	-	3,502,158
Segmental liabilities	2,070,692	144,012	231,483	254,305	-	2,700,492
Additions to non-current assets during the year	15,881	652	1,565	465	-	18,563

9 Segment information *(continued)*

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

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

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

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

(b) Geographical information

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

(c) Information about major customers

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

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

	2022 **AED'000**	2021 AED'000
Loans and advances	**179,845**	172,201
Income from Islamic financing and investing assets	**3,791**	3,663
Due from banks	**7,479**	3,843
Income from perpetual investments	**848**	1,013
Other	**1,354**	225
Interest income and income from Islamic financing and investing assets	**193,317**	180,945
Customers' deposits and margin accounts	**(24,432)**	(24,959)
Due to banks and other financial institutions	**(30,120)**	(17,636)
Profit distributable to depositors	**(517)**	(1,154)
Interest expense and profit distributable to depositors	**(55,069)**	(43,749)
Net interest income and income from Islamic financing and investing assets	**138,248**	137,196

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

11 Net fee and commission income

	2022 AED'000	2021 AED'000
Fee and commission income from		
Credit cards related fees	**6,896**	8,859
Corporate finance fees	**10,465**	9,617
Letters of credit and letters of guarantees	**4,192**	6,068
Other commission income	**9,526**	4,707
	31,079	29,251
Fee expense on		
Credit cards and others	**(12,635)**	(13,388)
Other fee expense	**(133)**	-
	(12,768)	(13,388)
Net fee and commission income	**18,311**	15,863

12 Net investment income

	2022 AED'000	2021 AED'000
Investments carried at fair value through profit or loss		
Gain on disposal	**7,226**	4,169
Changes in fair value	**(3,821)**	11,639
Dividends	**1,880**	1,355
Net gain from investments carried at fair value through profit or loss	**5,285**	17,163
Income from investments carried at fair value through other comprehensive income		
Dividends	**7,039**	7,845
Realized gain on disposal of investment carried at amortized cost	**39**	-
Net income from investments	**12,363**	25,008

13 Other operating income, net

	2022 AED'000	2021 AED'000
Rental income from investment property	**392**	336
Others	**25,866**	26,198
	26,258	26,534

14 Salaries and employees related expenses

	2022 **AED'000**	2021 AED'000
Basic salaries	**30,668**	29,469
Cost of living allowance	**17,862**	11,732
Employees outsourced	**18,170**	19,862
Housing allowance	**11,322**	11,617
Gratuity	**2,386**	1,688
Others	**29,153**	28,478
	109,561	102,846

15 General and administrative expenses

	2022 **AED'000**	2021 AED'000
Lease expense	**6,557**	4,295
Communication expenses	**3,736**	4,194
Professional fees	**3,330**	6,222
Repair and maintenance	**2,304**	2,484
Advertising, maintenance and other expenses	**30,339**	34,222
	46,266	51,417

16 Basic and diluted earnings per share

Earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the period. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. As at 31 December 2022, the Group has not issued any instruments which dilutive impact on earnings per share would have when converted or exercised.

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

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

	2022 AED'000	2021 AED'000
Profit for the year attributable to equity holders of the parent	**16,562**	15,484
Less: Tier 1 Sukuk coupon paid	**(16,907)**	(17,008)
Less: Proposed directors' remuneration	**(2,048)**	(2,251)
	(2,393)	(3,775)
Number of ordinary shares in issue (thousands)	**302,838**	302,838
Less: Treasury shares	**(20,157)**	(19,847)
Less: Employees' share-based payment scheme	**(1,750)**	(1,750)
Weighted average number of shares (thousands)	**280,931**	281,241
Earnings per share (AED)	**(0.01)**	(0.01)

17 Cash and cash equivalents

	2022 AED'000	2021 AED'000
Cash balances		
Cash on hand	**8,407**	8,096
Due from banks with original maturities of less than three months		
Placements with banks	**110,504**	65,245
Call accounts	**201,477**	267,184
Current and demand accounts	**77,807**	105,614
Balance with UAE Central Bank	**362,292**	149,748
Restricted cash balances*	**6,000**	6,000
	758,080	593,791
Due to banks and other financial institutions with original maturity of less than three months	**(30,059)**	(26,720)
Other restricted cash balances*	**(6,000)**	(6,000)
Net cash and cash equivalents	**730,428**	569,167

*Restricted cash represents deposits with CBUAE (formerly Insurance Authority) amounting to AED 6,000 thousand (*2021: AED 6,000 thousand*).

18 Investments

	At fair value through other comprehensive income AED'000	At fair value through profit or loss AED'000	At amortized cost AED'000	Total AED'000
2022				
Equity instruments:				
- Quoted *	**129,779**	**58,832**	**-**	**188,611**
- Unquoted	**45,143**	**-**	**-**	**45,143**
Debt instruments				
-Quoted-Fixed rate	**33,864**	**-**	**-**	**33,864**
Unquoted investment in managed funds	**730**	**-**	**-**	**730**
	209,516	**58,832**	**-**	**268,348**
Within UAE	**204,776**	**58,832**	**-**	**263,608**
Outside UAE	**4,740**	**-**	**-**	**4,740**
	209,516	**58,832**	**-**	**268,348**
2021				
Equity instruments:				
- Quoted *	173,432	59,685	-	233,117
- Unquoted	45,967	-	-	45,967
Debt instruments				
-Quoted-Fixed rate	37,003	-	-	37,003
Unquoted investment in managed funds	1,081	-	1,847	2,928
	257,483	59,685	1,847	319,015
Within UAE	251,624	59,685	-	311,309
Outside UAE	5,859	-	1,847	7,706
	257,483	59,685	1,847	319,015

18 Investments *(continued)*

The Group holds investments in Tier 1 perpetual instruments which are classified under quoted equity instruments amounting to **AED 3,827 thousand** *(2021: AED 4,754 thousand)*.These instruments carry an average coupon interest/profit rate between **5.25%p.a. – 6.25% p.**a *(2021:* 5.25% p.a – 6.50% *p.a).*

* Included in this balance investments in shares amounting to **AED 74,570 thousand** *(2021: AED 100,276 thousand)* in the name of related parties who has given the parent company full control to act as owner of these shares.

During the year, the Group has redeemed investments on maturity carried at amortized cost of **AED 1,847 thousand** *(2021: AED 3,673 thousand).*

19 Loans and advances

	2022 **AED'000**	2021 AED'000
Commercial loans		
Commercial overdraft	**296,444**	374,312
Other commercial advances	**1,651,728**	1,644,104
	1,948,172	2,018,416
Retail finance		
Personal loans and advances	**497,015**	475,400
	497,015	475,400
Gross loans and advances	**2,445,187**	2,493,816
Less: Allowance for impairment	**(444,039)**	(411,551)
Loans and advances	**2,001,148**	2,082,265

19 Loans and advances *(continued)*

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

	2022 **AED'000**	2021 AED'000
At 1 January	**411,551**	379,052
Impairment charges for the year	**44,009**	52,892
Reversal of no longer required impairment charges	**(8,439)**	(8,309)
Amount written off	**(3,082)**	(12,084)
Balance at 31 December	**444,039**	411,551

The allowance for impairment includes a specific provision of **AED 372.1 million** (*2021 AED* 362.6 million) for stage 3 loans of the Group.

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

20 Islamic financing and investing assets

	2022 **AED'000**	2021 AED'000
Commodity Murabaha	**55,543**	61,752
Covered card and drawings	**17,411**	20,673
Ijarah	**6,641**	7,005
Purchase and lease back	**484**	711
Others	**3,173**	3,123
Gross Islamic financing and investing assets	**83,252**	93,264
Less: Allowance for impairment	**(60,616)**	(62,959)
Islamic financing and investing assets	**22,636**	30,305

20 Islamic financing and investing assets *(continued)*

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

	2022 **AED'000**	2021 AED'000
At 1 January	**62,959**	60,869
Impairment charges for the year	**(5,721)**	200
Reversal no longer required (impairment charges)	-	(245)
Transfers	**3,378**	2,135
At 31 December	**60,616**	62,959

Allowance for impairment includes a specific provision of **AED 60.3 million** (*2021* AED 62.3 million) for stage 3 Islamic financing and investing assets of the Group.

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

	2022 **AED'000**	2021 AED'000
Gross Ijara and purchase and lease-back		
Less than one year	**6,447**	5,187
Between one and three years	**1,816**	3,491
Between three and five years	**-**	415
	8,263	9,093
Less: Deferred income	**(1,138)**	(1,377)
Net Ijara and purchase and lease-back	**7,125**	7,716

Present value of minimum Ijara and purchase and leaseback payments

	2022 **AED'000**	2021 AED'000
Less than one year	**5,428**	4,171
Between one and three years	**1,697**	3,019
Between three and five years	**-**	526
	7,125	7,716

21 Investment in equity accounted investee

The Group has the following investment in associates

	Country of incorporation	Percentage of holding		Principal activity
		2022	2021	
Mainland Management L.L.C.	U.A.E	**33.33%**	33.33%	Hospitality management services
Empay LLC	U.A.E	**30%**	30%	Digital Payment Ecosystem & services

Movement in investment in an associate is as follows:

	2022 AED'000	2021 AED'000
At 1 January	**86,881**	89,788
Share of results for the year	**(4,268)**	(2,907)
At 31 December	**82,613**	86,881

Summarized financial information of the associate is set out below:

	2022 AED'000	2021 AED'000
Associate's statement of financial position		
Assets	**222,161**	222,163
Liabilities	**(49,113)**	(35,311)
Net assets	**173,048**	186,852
Group's share of net assets	**82,613**	86,881
Carrying amount of investment in an associate	**82,613**	86,881
Income statement		
Revenue	**-**	1,089
Loss for the year	**(13,804)**	(9,563)
Group's share of results for the year	**(4,268)**	(2,906)

22 Interest receivable and other assets

	2022 AED'000	2021 AED'000
Accounts receivable	**34,212**	41,262
Less: impairment allowance	**(1,634)**	(1,433)
	32,578	39,829
Prepayments	**22,914**	19,336
Interest receivable and profit receivable	**16,104**	13,854
Other assets	**35,764**	23,363
	107,360	96,382

23 Insurance receivable and contract assets

	2022 AED'000	2021 AED'000
Insurance receivables	**145,365**	98,679
Re-insurance contract assets	**102,578**	77,279
	247,943	175,958

Insurance Receivables

	2022 AED'000	2021 AED'000
Due from policyholders	**49,374**	41,840
Due from brokers and agencies	**12,932**	12,687
Due from insurance and reinsurance companies	**91,984**	52,914
	154,290	107,441
Expected credit loss	**(9,110)**	(9,110)
	145,180	98,331
Refundable deposits and other advances	**185**	348
Premium and insurance balances receivables – net	**145,365**	98,679

23 Insurance receivable and contract assets *(continued)*

Reinsurance share of outstanding claims

	2022 **AED'000**	2021 AED'000
Unearned premiums reserve	**58,904**	39,580
Claims under settlement reserves	**26,580**	30,655
Incurred but not reported claims reserve	**17,094**	7,044
	102,578	77,279

24 Property, fixtures and equipment

	Freehold Land	Rights of use assets	Building	Furniture Fixtures and equipment	Motor vehicles	Computer hardware and software	Capital work-in-progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost:								
At 1 January 2021	20,000	16,066	55,000	37,608	3,851	54,649	5,472	192,646
Additions during the year	-	-	-	95	189	3,780	14,311	18,375
Reclassification / disposal	-	(5,600)	-	1,139	(1,139)	-	(488)	(6,088)
At 31 December 2021	20,000	10,466	55,000	38,842	2,901	58,429	19,295	204,933
At 1 January 2022	**20,000**	**10,466**	**55,000**	**38,842**	**2,901**	**58,429**	**19,295**	**204,933**
Additions during the year	**-**	**512**	**-**	**573**	**772**	**867**	**12,842**	**15,566**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposal	**-**	**(10,468)**	**-**	**-**	**(575)**	**-**	**-**	**(11,043)**
At 31 December 2022	**20,000**	**510**	**55,000**	**39,415**	**3,098**	**59,296**	**32,137**	**209,456**

24 Property, fixtures and equipment *(continued)*

	Freehold Land	Rights of use assets	Building	Furniture Fixtures and equipment	Motor vehicles	Computer hardware and software	Capital work-in-progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Accumulated depreciation								
At 1 January 2021	-	10,945	3,360	36,821	2,293	45,079	-	98,498
Charge for the year	-	4,094	1,835	1,327	244	5,950	-	13,450
Release on disposals	-	(5,783)	-	-	(514)	22		(6,275)
At 31 December 2021	-	9,256	5,195	38,148	2,023	51,051	-	105,673
At 1 January 2022	**-**	**9,256**	**5,195**	**38,148**	**2,023**	**51,051**	**-**	**105,673**
Charge for the year	**-**	**1,358**	**1,833**	**535**	**422**	**5,006**	**-**	**9,154**
Release on disposals	**-**	**(10,465)**	**-**	**-**	**(575)**	**-**	**-**	**(11,040)**
At 31 December 2022	**-**	**149**	**7,028**	**38,683**	**1,870**	**56,057**	**-**	**103,787**
Net book value:								
At 31 December 2022	**20,000**	**361**	**47,972**	**732**	**1,228**	**3,239**	**32,137**	**105,669**
At 31 December 2021	20,000	1,210	49,805	694	878	7,378	19,295	99,260

25 Intangibles

	Goodwill AED'000
2022	
At 1 January	**6,705**
At 31 December	**6,705**
2021	
Carrying value:	
At 1 January	6,705
At 31 December	6,705

Goodwill

Goodwill acquired through business combinations relates to Finance House L.L.C. (formerly known as Islamic Finance House P.J.S.C.)

Impairment test of goodwill

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

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

26 Investment properties

	2022 AED'000	2021 AED'000
At 1 January	**3,500**	7,925
Reclassified during the year	**-**	(4,425)
Changes in fair value	**600**	-
At 31 December	**4,100**	3,500

26 Investment properties *(continued)*

Investment properties comprises a villa in Green Community, Dubai with a market value of **AED 4,100 thousand** *(2021: AED 3,500 thousand).*

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

The net rental income recognised is **AED 392 thousand** *(2021: AED 336 thousand)* and is recognised in the consolidated income statement under 'other operating income'.

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

27 Customers' deposits and margin accounts

	2022 AED'000	2021 AED'000
Call and demand deposits	**704,292**	364,502
Time deposits	**1,095,773**	1,081,190
Wakala deposits	**15,990**	13,543
	1,816,055	1,459,235
Margin accounts	**244,619**	257,150
	2,060,674	1,716,385

Analysis of customers' deposits by sector is as follows:

By type:		
Government	**127,250**	384,874
Corporate	**1,933,424**	1,331,511
	2,060,674	1,716,385

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

Customers' deposits and margin accounts carry interest/profit rates ranging from **Nil to 5.15% p.a** *(2021: Nil to 4.10% p.a).*

28 Short term borrowings and medium-term loans

Short-term borrowings

	2022 AED'000	2021 AED'000
At 1 January	**441,910**	298,160
Proceeds received	**31,000**	143,750
Repayments	**(132,910)**	-
At 31 December	**340,000**	441,910

Loan	Year of maturity	2022 Carrying amount AED'000	2021 Carrying amount AED'000
Term loan 1	**2023**	**150,000**	150,000
Term loan 2	**2023**	**65,000**	50,000
Term loan 3	**2023**	**60,000**	60,000
Term loan 4	**2022**	**-**	100,000

These short-term borrowings carry variable interest rates ranging from **5.99 % p.a to 8.00% p.a** *(2021:* 2.88 % p.a to 6.00% p.a*)*.

Medium term loans

	2022 AED'000	2021 AED'000
At 1 January	**100,000**	25,000
Proceeds received	**-**	100,000
Repayments	**(33,333)**	(25,000)
At 31 December	**66,667**	100,000

Obtained In	Matures in	Approved facility line AED '000	Repayment schedule	Interest rate
30 November 2021	2024	100,000	5 equal instalments of AED 16,667 thousand plus interest and one final instalment (6th) covering the residual utilisation amount plus interest.	3 months EIBOR + 2.50% p.a.

Short term borrowing and/or medium term loans are subject to financial covenants that are customary to credit facilities of such nature.

29 Interest payable and other liabilities

	2022 AED'000	2021 AED'000
Trade payables	-	73,665
Interest payable and profit payable	**20,252**	18,941
Accrued expenses	**27,677**	24,372
Transit account for payday accounts	-	32,123
Unclaimed cheques	**4,820**	10,912
Other liabilities	**88,439**	75,672
	141,188	235,685

On 9 December 2022, the UAE Ministry of Finance released the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

A rate of 9% will apply to taxable income exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance), a rate of 0% will apply to taxable income not exceeding this threshold. In addition, there are several other decisions that are yet to be finalized by way of a Cabinet Decision that are significant in order for entities to determine their tax status and taxable income. Therefore, pending such important decisions, the Group has considered that the Law, as it currently stands, is not substantively enacted as at 31 December 2022 from the perspective of IAS 12 – Income Taxes. The Group shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine their tax status and the application of IAS 12 – Income Taxes.

The Group is currently in the process of assessing the possible impact on the consolidated financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

30 Provision for employees' end of service benefits

	2022 AED'000	2021 AED'000
At 1 January	**14,328**	14,925
Charge for the year	**2,386**	1,688
Payments	**(2,343)**	(2,285)
At 31 December	**14,371**	14,328

31 Share capital

	2022 AED'000	2021 AED'000
302.8 million shares *(2021: 302.8 million shares)* of **AED 1 each** *(2021: AED 1 each)*	**302,838**	302,838

32 Treasury shares

Treasury shares represent the cost of **26,354 thousand** shares of the Company held by the Company as at 31 December 2022 *(2021: 17,659 thousand shares).*

	2022		2021	
	Number of shares '000	**AED'000**	Number of shares '000	AED'000
Share held by Finance House PJSC	**26,354**	**46,535**	17,659	29,823
	26,354	**46,535**	17,659	29,823

In the Annual general meeting dated 21 April 2021, shareholders have approved the write off of 7,212,191 shares after obtaining the necessary regulatory approvals.

During 2021, the Company has obtained regulatory approvals to undertake a share-buy program whereby the Company buys and sells its own shares in the normal course of its equity trading and marketing activities. These shares are treated as a deduction from shareholders' equity. Gain and loss on sales or redemption of own shares are credited or charged to reserves. During 2022, a total of 8,695,156 shares (2021: 17,658,552 shares) were purchased back from the market at an average price of AED 1.92 (2021: AED 1.69) per share amounting to AED 16,711,915 (2021: AED 29,823,376).

33 Employees' share-based payment scheme

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

During the year, no shares were granted to employees and the value of outstanding shares not yet granted to employees as at 31 December 2022 were **AED 1,750 thousand** *(2021: AED 1,750 thousand).*

34 Statutory reserve

In line with the provisions of the UAE Federal Commercial Companies Law No. 32 of 2021, and the Company's Articles of Association, the Company is required to transfer annually to a statutory reserve account an amount equivalent to 10% of its profit, until such reserve reaches 50% of the share capital of the Company. During the year the Group has transferred **nil** to the reserve *(2021: AED 1,548 thousand)*. The statutory reserve is not available for distribution.

35 Tier 1 Capital Instruments

In July 2015, the Company raised financing by way of Shariah compliant Tier 1 Capital Certificates amounting to AED 300 million (Tier 1 Sukuk). Issuance of these Capital Certificates was approved by the Company's Extra Ordinary General Meeting (EGM) in April 2015. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Certificates bear profit at a fixed rate payable semi-annually in arrears. The Capital Certificates are non-cumulative perpetual securities for which there is no fixed redemption date and are callable by the Company subject to certain conditions. Tier 1 Sukuk amounting to **AED 23,800 thousand** *(2021: AED 23,800 thousand)* are held by subsidiaries of the Group and, accordingly, eliminated in the consolidated statement of financial position. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon profit rate of ranging from **6.058% to 6.14%% p.a** (2021: 6.058% to 6.14%%p.a).

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

36 Commitments and contingent liabilities

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

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

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

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

	2022 AED'000	2021 AED'000
Letters of credit	**122**	1,971
Letters of guarantee	**505,107**	594,167
Capital commitments	**4,249**	4,249
	509,478	600,387

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

37 Related party disclosures

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

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

	2022 AED'000	2021 AED'000
Loans and advances to customers		
To key management staff	**1,041**	1,967
To members of board of directors	**35,045**	48,059
To other related party	**29,139**	9,727
Customers' deposits		
From other entities under common control	**3,577**	6,870

Balances with related parties include loans granted to Directors and their related parties amounting to **AED 35,045 thousand as at 31 December 2022** *(2021: AED* 48,059 *thousand).* Loans and advances to related parties are determined by management at agreed rates.

Customers' deposits and margin accounts carry fixed interest rate of **nil% per annum to 0.75%** per annum *(2021: nil% per annum to 0.25% per annum).*

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

	2022 AED'000	2021 AED'000
Interest and commission income		
From key management staff	**60**	57
From members of board of directors	**2,884**	2,730
Interest expense		
To others	**289**	245
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**15,047**	12,299

During the year the Group paid directors' remuneration AED 2,251 thousands (2021: AED 1,957 thousands) and proposed directors' remuneration AED 2,048 thousands (2021: AED 2,251).

Terms and conditions of transactions with related parties

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

38 Legal proceedings

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