Finance House L.L.C.

Directors' report and financial statements

31 December 2022

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

Finance House L.L.C.

Director's report and financial statements

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Directors' report for the year ended 31 December 2022

Directors' report

The Directors present herewith their report together with the financial statements for the year ended 31 December 2022.

Principal activities

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

Results for the year

During the year ended 31 December 2022, the Company reported a net profit for the year of AED 30,113 thousand (2021: net profit for the year of AED 3,087 thousand).

Directors

The directors of the Company throughout the year were:

Mohammed Abdulla Jumaa Alqubaisi- Chairman
Khaled Abdulla Jumaa Alqubaisi- Vice Chairman
Ahmad Obaid Humaid Al Mazrooei- Director
Abdulla Ali Ebrahim Al Saadi- Director
Abdulmajeed Ismail Ali Alfahim- Director
Murtada Muhammad Sharif Al Hashemi- Director
Alia Abdulla Mohamed Almazarouei- Director

Release

The Directors release from liability the management and the external auditor in connection with their duties for the year ended 31 December 2022.

On behalf of Board of Directors:

Chairman

KPMG Lower Gulf Limited
Level 19, Nation Tower 2
Corniche Road, P.O. Box 7613
Abu Dhabi, United Arab Emirates
Tel. +971 (2) 401 4800, www.kpmg.com/ae

Independent auditors' report

To the Shareholders of Finance House L.L.C

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Finance House L.L.C ("the Company"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the Directors' report.

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

Other Information (continued)

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021, 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 financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021;

iii) the Company has maintained proper books of account;

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

v) note 24 to the financial statements discloses material related party transactions and the terms under which they were conducted;

vi) as disclosed in note 14 to the financial statements, the Company has not purchased any shares during the year ended 31 December 2022; and

Report on Other Legal and Regulatory Requirements (continued)

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021 or its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Abu Dhabi, United Arab Emirates
Date: 31 MAR 2023

Finance House L.L.C.

Statement of financial position
as at 31 December

	Note	2022 AED'000	2021 AED'000
Assets			
Cash, due from banks and financial institutions	*11*	**588,990**	574,517
Investments securities	*14*	**5,751**	5,751
Loans and advances	*12*	**896,706**	294,402
Islamic financing and investing assets	*13*	**22,636**	30,305
Receivables and other assets	*15*	**114,726**	2,114
Property and equipment	*16*	**-**	1
Total assets		**1,628,809**	907,090
Liabilities and Equity			
Liabilities			
Customers' deposits	*17*	**793,261**	131,478
Customers' margins	*18*	**217,812**	63,518
Other liabilities	*19*	**10,037**	134,508
Total liabilities		**1,021,110**	329,504
Equity			
Share capital	*20*	**600,000**	600,000
Statutory reserve	*21*	**5,129**	2,118
Retained Earnings		**2,570**	(24,532)
Total equity		**607,699**	577,586
Total liabilities and equity		**1,628.809**	907,090
Commitments and contingent liabilities	*22*	**354,317**	263,529

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

The financial statements were authorized and approved for issue by the Board of Directors on 23rd March 2023 and signed on their behalf by:

Mohammed Abdulla Jumaa Alqubaisi
Chairman

T.K. Raman
Chief Executive Officer

The notes on pages 10 to 65 are an integral part of these financial statement.

Finance House L.L.C.

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

	Note	2022 AED'000	2021 AED'000
Profit on sukuk and income from Islamic financing and investing assets	7	**3,791**	3,665
Interest income	7	**72,297**	5,238
Profit distributable to depositors	7	**(517)**	(746)
Interest Expenses		**(8,153)**	(408)
Net income on sukuks, interest income and profit from Islamic financing and investing assets		**67,418**	7,749
Fee and commission income	8	**19,783**	2,083
Fee and commission expenses	8	**(12,589)**	(1,879)
Net fee and commission income		**7,194**	204
Credit impairment loss on loans and advances		**(14,105)**	(3,578)
Credit impairment reversal on Islamic financing and investing assets	13	**5,721**	-
Other Operating income		**1,850**	342
Net operating income		**68,078**	4,717
Salaries and employees' related expenses	9	**(25,997)**	-
General and administrative expenses	10	**(11,968)**	(1,630)
Profit for the year		**30,113**	3,087
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**30,113**	3,087

The notes on pages 10 to 65 are an integral part of these financial statement.

Finance House L.L.C.

Statement of changes in equity
for the year ended 31 December

	Share Capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2021	**600,000**	**1,809**	**(27,310)**	**574,499**
Profit for the year	-	-	3,087	3,087
Total comprehensive income for the year	-	-	**3,087**	**3,087**
Transfer to statutory reserve	-	309	(309)	-
Balance as at 31 December 2021	**600,000**	**2,118**	**(24,532)**	**577,586**
Balance at 1 January 2022	**600,000**	**2,118**	**(24,532)**	**577,586**
Profit for the year	-	-	30,113	30,113
Total comprehensive income for the year	-	-	**30,113**	**30,113**
Transfer to statutory reserve	-	3,011	(3,011)	-
Balance as at 31 December 2022	**600,000**	**5,129**	**2,570**	**607,699**

The notes on pages 10 to 65 are an integral part of these financial statements

Finance House L.L.C.

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		**30,113**	3,087
Adjustments for:			
Depreciation		**1**	34
Credit Impairment Loss on Islamic Financing and investing assets		-	3,578
Net impairment loss of loans and advances		**14,105**	-
Credit impairment reversal on Islamic Financing and investing assets		**(5,721)**	(245)
Impairment transferred from Finance House PJSC		-	2,135
		38,498	8,589
Changes in:			
Islamic financing and investing assets		**13,390**	24,608
Loans and advances		**(238,425)**	(294,402)
Receivables and other assets		**(112,612)**	(1,054)
Customers' deposits		**558,233**	100,977
Customers' margins		**37,057**	39,999
Other liabilities		**(281,668)**	130,789
Cash generated from operating activities		**14,473**	9,506
Cash flows from investing activities			
Wakala deposits placed		**5,000**	(5,000)
Net cash from / (used in) investing activities		**5,000**	(5,000)
Net increase in cash and cash equivalents		**19,473**	4,506
Cash and cash equivalents at 1 January		**569,517**	565,011
Cash and cash equivalents at 31 December	*11*	**588,990**	569,517

The notes on pages 10 to 65 are an integral part of these financial statements.

1 Legal status and principal activities

Finance House L.L.C. (formerly known as Islamic Finance House P.J.S.C ("the Company") is registered in Abu Dhabi, United Arab Emirates (UAE), as a Limited Liability Company, in accordance with its articles of association. Finance House P.J.S.C. is the Parent Company.
The name and the legal form of the company changed from Islamic finance House P.J.S.C ("the Company") to Finance House L.L.C. on the general assembly held on 25th March 2020.

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

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

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

The financial statements were authorized for issue by the Board of Directors on 30 March 2023.

2 Basis of preparation

(a) *Statement of compliance*

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

On 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.

(b) *Basis of measurement*

The financial statements of the Company have been prepared on the historical cost basis except for debt securities that are classified as fair value through profit and loss (FVTPL) and that are measured at their fair values at the end of each reporting period.

2 Basis of preparation *(continued)*

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

3 Significant accounting policies

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

(a) 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 Company in preparation of these separate 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 Company'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) Cash and cash equivalents

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

(c) Financial assets and liabilities

Recognition and initial measurement

The Company 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 Company 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 Company 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 Company 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.

3 Significant accounting policies *(continued)*

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

Classification and subsequent measurement *(continued)*

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Company 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.

Financial assets – Business model assessment

The Company 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 Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- 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.

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

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 Company's continuing recognition of the assets.

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

3 Significant accounting policies *(continued)*

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

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

In making the assessment, the Company considers:

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

The Company holds a portfolio of long-term fixed-rate loans for which the Company 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 Company 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 Company changes its business model for managing financial assets.

Derecognition

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

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

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

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

3 Significant accounting policies *(continued)*

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

Derecognition *(continued)*

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

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

Financial liabilities

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

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company 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 Company 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 Company 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.

3 Significant accounting policies *(continued)*

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

Modification of financial assets and financial liabilities *(continued)*

Financial liabilities

The Company 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.

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 Company 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:

a. the change is necessary as a direct consequence of the reform; and
b. 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 Company first updates the effective interest rate benchmark reform. After that, the Company applies the policies on accounting for modifications set out above to the additional changes.

Impairment of financial assets

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

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

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

3 Significant accounting policies *(continued)*

(d) Financial guarantee contracts and Islamic financing commitments

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

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

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

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

(e) Property, fixtures and equipment

Recognition and measurement

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

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

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

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

Subsequent costs

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

Depreciation

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

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

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

3 Significant accounting policies *(continued)*

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

Depreciation *(continued)*

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.

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

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

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

(g) ***Provisions***

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

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

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

(h) ***Employees' end of service benefits***

Defined contribution plan

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

Defined benefit plan

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

3 Significant accounting policies *(continued)*

(i) Foreign currencies

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

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.

(j) Offsetting

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

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

(k) Fair values measurements

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

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

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

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

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

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

3 Significant accounting policies *(continued)*

(k) ***Fair values measurements*** *(continued)*

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

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

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

Management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

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

(l) ***Recognition of income***

i) *Profit and Interest*

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

3 Significant accounting policies *(continued)*

(l) ***Recognition of income*** *(continued)*

ii) Fees and commission

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

- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Islamic financing commitment fees that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective profit rate on the Islamic financing. When it is unlikely that a Islamic financing will be drawn down, the commitment fees are recognised over the commitment period on a straight-line basis.
- Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

iii) Murabaha

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

iv) Ijara

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

v) Wakala

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

vi) Income on balances with financial institutions

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

vii) Dividend income

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

(m) ***Share capital***

Ordinary shares

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

4 Significant accounting judgements and estimates

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

Estimates and assumptions

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

i) Fair value of unquoted investments

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

ii) Measurement of the expected credit loss allowance

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

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

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

5 Financial risk management

(a) Introduction

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

i) Risk management structure

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

Board of Directors

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

Audit Committee

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

Asset Liability Committee

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

Investment and Credit Committee (ICC)

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

5 Financial risk management *(continued)*

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

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

Board Risk Management Committee

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

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

Risk Management Department (RMD)

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

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

Treasury

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

Internal Audit

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

ii) ***Risk measurement and reporting systems***

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

5 Financial risk management *(continued)*

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

ii) ***Risk measurement and reporting systems*** *(continued)*

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

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

iii) ***Risk mitigation***

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

The Company actively uses collateral to reduce its credit risks.

iv) ***Risk concentration***

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

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

Details of the composition of the Islamic financing and investing portfolio are provided in *note 13*. Information on credit risk relating to investments is provided in *note 5(b)*.

v) ***Risk assessment***

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

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

(b) ***Credit risk***

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

5 Financial risk management *(continued)*

(b) *Credit risk (continued)*

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

The ECL recorded on Islamic financing and investing assets measured at amortized cost have been disclosed in *note 13* such that there is no reasonable expectation of recovering in full.

(i) *Settlement risk*

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

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

(ii) *Write-off policy*

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

(iii) *Modification of financial assets*

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

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

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

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

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

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

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

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

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

(iv) ***Credit risk measurement***

Islamic Finances (including Islamic Finance commitments, LCs and LGs)

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

Credit risk grading

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

5 Financial risk management *(continued)*

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

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

Credit risk grading (continued)

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

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

Retail

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

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

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

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

Wholesale

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

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 of a facility as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Refer to *Note 5(b)(vi)* for a description of how the Company defines credit-impaired and default and credit-impaired assets.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to following note for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information. The below note includes an explanation of how the Company has incorporated this in its ECL models.

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

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

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

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

<u>Quantitative criteria</u>

Corporate Facility:
For corporate facilities, if the borrower experiences a significant increase in probability of default, which can be triggered by the following quantitative factors:

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

5 Financial risk management *(continued)*

(b) *Credit risk (continued)*

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

Quantitative criteria *(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;
- Facility rescheduling before 30 Days Past Due (DPD); and
- Accounts overdue between 30 and 90 days.

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

Qualitative criteria:

Corporate Loans:
- Feedback from the Early Warning Signal framework of the Company (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 Company defines a financial instrument as in default, which fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

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

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

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

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

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

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

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

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

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

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

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.
In addition to the base economic scenario, the Company's Credit risk team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure plausible events are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2022 and 31 December 2022, for all portfolios the Company concluded that three scenarios representing the Downturn, Normal and Growth cases have been determined appropriate for capturing forward looking component in ECL. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The weightings assigned to each macro-economic scenario as at 31 December 2021, is as per the below table:

Economic Scenarios		
Down turn	Normal	Growth
50%	30%	20%

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

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

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 Company'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	**409,006**	**9,372**	**-**	**418,378**
Grading 2	**393,632**	**36,453**	**-**	**430,085**
Grading 3	**-**	**1,404**	**1,177**	**2,581**
Grading 4	**-**	**-**	**2,021**	**2,021**
Grading 5	**-**	**-**	**300,188**	**300,188**
	802,638	**47,229**	**303,386**	**1,153,253**
Loss allowance	**(15,659)**	**(10,186)**	**(230,702)**	**(256,547)**
Carrying amount	**786,979**	**37,043**	**72,684**	**896,706**
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	**122**	**-**	**-**	**122**
Guarantees	**326,754**	**63**	**-**	**326,817**
Loss allowance	**(3,720)**	**(13)**	**-**	**(3,733)**
Carrying amount	**323,156**	**50**	**-**	**323,206**

Finance House L.L.C.

Notes to the financial statements *(continued)*

5 Financial risk management *(continued)*

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

(ix) ***Credit risk exposure*** *(continued)*

Credit quality analysis

	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
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	9,131	22,636
Credit risk exposures relating to off-balance sheet items are as follows				
Guarantees	27,378	-	-	27,378
Loss allowance	(205)	-	-	(205)
Carrying amount	27,173	-	-	27,173
Credit risk exposures relating to on-balance sheet assets				
Due from banks at investment grade	582,700	-	-	582,700
	582,700	-	-	582,700

5 Financial risk management *(continued)*

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

(ix) ***Credit risk exposure*** *(continued)*

Credit quality analysis *(continued)*

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

	2021			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing and investing assets				
Grading 1	16,181	85	-	16,266
Grading 2	133	4,578	-	4,711
Grading 3	-	-	4,803	4,803
Grading 4	-	-	982	982
Grading 5	-	-	66,502	66,502
	16,314	4,663	72,287	93,264
Loss allowance	(396)	(227)	(62,336)	(62,959)
Carrying amount	15,918	4,435	9,952	30,305
Credit risk exposures relating to off-balance sheet items are as follows				
Guarantees	35,304	164	-	35,468
Loss allowance	(18)	(2)	-	(20)
Carrying amount	35,286	162	-	35,448
Credit risk exposures relating to on-balance sheet assets				
Due from banks at investment grade	582,700	-	-	582,700
	582,700	-	-	582,700

5 Financial risk management *(continued)*

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

(ix) ***Credit risk exposure*** *(continued)*

Collateral and other credit enhancements

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

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

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

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

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

	Loans and Advances	
	2022	2021
	AED'000	AED'000
Against loans and advances not impaired:		
Property	**208,991**	25,000
Equities	**141,469**	49,745
Cash	**231,252**	45,443
Others	**2,479**	-
	584,191	120,188

5 Financial risk management *(continued)*

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

***(ix) Credit risk exposure** (continued)*

Collateral and other credit enhancements

	Islamic financing and investment products	
	2022	2021
	AED'000	AED'000
Against individually impaired Islamic financing and investing assets:		
Cash	**-**	4
	-	4
Total against Individually impaired		
Against Islamic financing and investing assets not impaired:		
Property	**12,373**	13,102
Equities	**1,000**	7,838
Cash	**10,741**	22,278
Others	**3,050**	3,050
	27,164	46,268

5 Financial risk management *(continued)*

(b) Credit risk (continued)

(x) Loss allowance

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period

The following table explain the changes in the loss allowance between the beginning and the end of the annual period December 2022 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	**3,378**	**-**	**-**	**3,378**
Inter Company Transfers	**11,174**	**10,499**	**228,346**	**250,019**
Transfers	**-**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 2	**(225)**	**225**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(408)**	**-**	**408**	**-**
Transfer from Stage 2 to Stage 1	**1,616**	**(1,616)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(898)**	**898**	**-**
Transfer from Stage 3 to Stage 1	**820**	**-**	**(820)**	**-**
Transfer from Stage 3 to Stage 2	**-**	**3,122**	**(3,122)**	**-**
New financial assets originated	**2,551**	**2,408**	**-**	**4,959**
Net remeasurement of loss allowance	**-**	**-**	**-**	**-**
Reversal of no longer required impairment charges	**(3,249)**	**(3,553)**	**(3,316)**	**(10,118)**
Changes in PDs/LGDs/EADs	**-**	**-**	**8,309**	**8,309**
Loss allowance as at 31 December 2022	**15,657**	**10,187**	**230,703**	**256,547**

5 Financial risk management *(continued)*

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

***(x) Loss allowance** (continued)*

	2022			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Islamic financing and investing assets				
Loss allowance as at 1 January	**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	-	-	-	-
Changes in PDs/LGDs/EADs	**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**

The following table explain the changes in the loss allowance between the beginning and the end of the annual period December 2021due to these factors:

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

5 Financial risk management *(continued)*

(b) *Credit risk (continued)*

(xi) *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	**297,780**	**-**	**-**	**297,780**
Transfers	**431,528**	**50,640**	**307,735**	**789,903**
Transfer from Stage 1 to Stage 2				
Transfer from Stage 1 to Stage 3	**(3,758)**	**3,758**	**-**	**-**
Transfer from Stage 2 to Stage 3	**(6,201)**	**-**	**6,201**	**-**
Transfer from Stage 3 to Stage 1	**7,959**	**(7,959)**	**-**	**-**
Transfer from Stage 3 to Stage 2	**-**	**(3,984)**	**3,984**	**-**
New financial assets originated	**1,128**	**-**	**(1,128)**	**-**
Repayments during the year		**4,307**	**(4,307)**	
Other movements	**198,034**	**8,612**	**-**	**206,646**
Reversal of no longer required impairment charges	**(123,878)**	**(8,100)**	**(9,098)**	**(141,076)**
Gross carrying amount as at 31 December 2022	**802,592**	**47,274**	**303,387**	**1,153,253**
Due from banks at investment grade	**582,700**	**-**	**-**	**582,700**

5 Financial risk management *(continued)*

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

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

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**
Islamic financing and investing assets				
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				
Transfer from Stage 3 to Stage 1	-	**(138)**	**138**	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	-	-	-	-
Other movements	-	**10**	**158**	**168**
Reversal of no longer required impairment charges	**(5,804)**	**(1,443)**	**(2,933)**	**(10,180)**
Gross carrying amount as at 31 December 2022	**10,510**	**3,091**	**69,651**	**83,252**
Due from banks at investment grade	**582,700**	-	-	**582,700**

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

	2022			
	Stage 1 12-month ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**Total AED'000**
Off-balance sheet items	**252,960**	**166**	**1**	**253,127**
Gross carrying amount as at 1 January 2022	**142,326**	**63**	-	**142,389**
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	**8,655**	-	-	**8,655**
Repayments during the year	**(49,687)**	**(166)**	**(1)**	**(49,854)**
Gross carrying amount as at 31 December 2022	**354,254**	**63**	-	**354,317**

5 Financial risk management *(continued)*

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

(xi)* *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
Islamic financing and investing assets				
Gross carrying amount as at 1 January 2021	**78,166**	**3,402**	**70,223**	**151,791**
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(4,102)	4,102	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	-	-	-	-
Other movements	(61,852)	5,362	(2,037)	(58,527)
Reversal of no longer required impairment charges				
Gross carrying amount as at 31 December 2021	**16,314**	**4,662**	**72,288**	**93,264**
Due from banks at investment grade	**582,700**	-	-	**582,700**

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

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

5 Financial risk management *(continued)*

(b) *Credit risk (continued)*

(xii) *Concentration of credit risk*

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

	Loans and advances	
	2022	2021
	AED'000	AED'000
Services	**62,581**	29,640
Trade	**126,225**	64,898
Real Estate	**67,274**	19,817
Manufacturing	**11,566**	36,056
Others	**885,607**	147,369
	1,153,253	297,780

	Islamic Financing Assets	
	2022	2021
	AED'000	AED'000
Construction	**6,836**	6,793
Services	**9,025**	9,347
Trade	**1,534**	652
Real Estate	**5,000**	5,000
Manufacturing	**-**	973
Others	**60,857**	70,499
	83,252	93,264

(c) *Liquidity risk*

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

5 Financial risk management *(continued)*

(c) *Liquidity risk (continued)*

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

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
ASSETS					
Cash and due from banks and financial institutions	588,990	-	-	-	588,990
Islamic financing and investing assets	15,887	960	5,789	-	22,636
Loans & Advances	767,728	1,673	127,305	-	896,706
Investments	-	-	5,751	-	5,751
Other assets	114,726	-	-	-	114,726
Financial assets	1,487,331	2,633	138,845	-	1,628,809
Non-financial assets	-	-	-	-	-
Total assets	1,487,331	2,633	138,845	-	1,628,809

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES					
Customers' deposits	666,659	120,621	5,981	-	793,261
Customers' margins	-	-	217,812	-	217,812
Other liabilities	10,037	-	-	-	10,037
Total liabilities	676,696	120,621	223,793	-	1,021,110
Off balance sheet					
Contingent liabilities	327,629	18,046	8,642	-	354,317
Total	327,629	18,046	8,642	-	354,317

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 Company's gross assets and liabilities at 31 December 2021 was as follows:

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
ASSETS					
Cash and due from banks and financial institutions	574,517	-	-	-	574,517
Islamic financing and investing assets	126,697	960	5,789	-	133,446
Loans & Advances	168,954	1,673	127,305	-	297,932
Investments	-	-	5,751	-	5,751
Other assets	1,542	571	-	-	2,113
Financial assets	871,710	3,204	138,845	-	1,013,759
Non-financial assets	1	-	-	-	1
Total assets	871,711	3,204	138,845	-	1,013,760

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

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

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

5 Financial risk management *(continued)*

(d) Market risk

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

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

Market risk arising from trading book

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

Market risk arising from banking book

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

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

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

Risk identification and classification

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

Management of market risk

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

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

5 Financial risk management *(continued)*

(d) Market risk (continued)

Risk measurement

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

Statistical risk measures

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

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

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

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

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, due from banks and financial institutions	**588,990**	-	-
Investments securities	**5,751**	5,751	-
Loans and Advances	**896,706**	-	-
Islamic financing and investing assets	**22,636**	-	-
Other assets	**114,726**	-	-
Liabilities subject to market risk			
Customers' deposits	**793,261**	-	-
Customers' margins	**217,812**	-	-
Other liabilities	**10,037**	-	-

31 December 2021		Market risk measure	
	Carrying amount AED'000	Trading portfolio AED'000	Non-trading portfolio AED'000
Assets subject to market risk			
Cash, due from banks and financial institutions	574,517	-	-
Investments securities	5,751	5,751	-
Loans and Advances	294,240	-	-
Islamic financing and investing assets	30,305	-	-
Other assets	2,114	-	-
Liabilities subject to market risk			
Customers' deposits	131,478	-	-
Customers' margins	63,518	-	-

5 Financial risk management *(continued)*

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

(i) ***Profit rate risk***

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

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

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

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

	Equity	
	+1% increase AED'000	**-1% decrease AED'000**
31 December 2022		
Change of 1%	**60**	**(60)**
Cash flow sensitivity	**60**	**(60)**
31 December 2021		
Change of 1%	2,849	(2,849)
Cash flow sensitivity	2,849	(2,849)

(ii) ***Currency risk***

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

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

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 Company's investment portfolio.

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

	Equity	
	+5% increase AED'000	**-5% decrease AED'000**
2022		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index		
Fixed income securities	**288**	**(288)**
Cash flow sensitivity	**288**	**(288)**
2021		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index		
Fixed income securities	288	(288)
Cash flow sensitivity	288	(288)

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

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

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

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

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

(ii) Three lines of defense

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

The three lines of defense are summarized below:

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

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

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

5 Financial risk management *(continued)*

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

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

Typically, Operational Risk events includes the following:

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

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

6 Fair values measurement

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

Fair value hierarchy:

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

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

6 Fair values measurement *(continued)*

Fair value hierarchy: (continued)

- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

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

6 Fair values measurement *(continued)*

Fair value hierarchy: (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**
31 December 2022				
Investments carried at fair value through profit and loss	-	**5,751**	-	**5,751**
	-	**5,751**	-	**5,751**

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

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

Transfers between categories

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

6 Fair values of financial instruments *(continued)*

Financial instruments not measured at fair value

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 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, due from banks and financial institutions	-	-	588,990
Investments securities	5,751	-	-
Loans and Advances	-	-	896,706
Islamic financing and investing assets	-	-	22,636
Receivables and other assets	-	-	114,726
	5,751	-	1,623,058
Liabilities			
Customers' deposits	-	-	793,261
Customers' margins	-	-	217,812
Other liabilities	-	-	10,037
	-	-	1,021,110

6 Fair values of financial instruments *(continued)*

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

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

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

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

	2022 AED'000	2021 AED'000
Due from banks and other financial institutions	1,914	369
Murabaha, ijarah and other Islamic financing	1,558	2,948
Sukuk Investments	319	348
	3,791	3,665
Interest income on loans and advances	72,297	5,238
	76,088	8,903
Profit distributable to depositors	(517)	(746)
Interest Expense	(8,153)	(408)
	67,418	7,749

8 Net fee and commission income

	2022 AED'000	2021 AED'000
Fee and commission income from		
Credit cards related fees	6,896	507
Corporate finance fees	69	707
Letters of credit and letters of guarantees	1,935	869
Other commission income	10,883	-
	19,783	2,083
Fee expense on		
Credit cards and others	(12,589)	(1,879)
Net fee and commission income	7,194	204

9 Salaries and employees' expenses

	2022 AED'000	2021 AED'000
Basic salaries	7,437	-
Allowances, other benefits and staff cost	18,560	-
	25,997	-

Pursuant to the reorganization plan approved by the board of directors, salaries got transferred from FH PJSC, parent company, to Finance House LLC following transfer of business functions.

10 General and administrative expenses

	2022 AED'000	2021 AED'000
Legal consultancy and other professional fees	**5,622**	412
Depreciation of furniture and equipment	**1**	34
Repairs and maintenance	**1,058**	129
Utilities, communication and licensing expenses	**1,228**	67
Security and other premises expenses	**62**	-
Sharia Board remuneration	**-**	58
Advertising expenses	**154**	-
Other expenses	**3,843**	930
	11,968	1,630

11 Cash, due from banks and financial institutions

	2022 AED'000	2021 AED'000
Due from financial institutions	**580,945**	572,074
Due from banks	**1,755**	1,746
Cash on hand	**6,290**	697
	588,990	574,517
Balances with financial institutions and banks with original maturity of more than 3 months	**-**	(5,000)
Net cash and cash equivalents	**588,990**	569,517

12 Loans and Advances

	2022 AED'000	2021 AED'000
Commercial loans		
Commercial overdraft	**137,840**	101,224
Other commercial advances	**539,204**	190,147
Retail finance		
Personal loan and advances	**476,209**	6,409
	1,153,253	297,780
Less: allowance for impairment		
Allowance for impairment	**(256,547)**	(3,378)
	896,706	294,402

An amount of AED 377,984 thousand (2021: 53,649 thousand) transferred from Finance House PJSC, Parent Company to Finance House LLC at net book value. Refer to Note 24.

13 Islamic financing and investing assets

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

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	**-**	200
Reversal of no longer required impairment charges	**(5,721)**	(245)
Intercompany movement	**3,378**	2,135
At 31 December	**60,616**	62,959

The Allowance for impairment include a specific provision of AED 60,323 million *(2021: AED* AED 62,601 *million)* for stage 3 Islamic financing and investing assets of the Company.

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

	2022 AED'000	2021 AED'000
Gross Ijara and purchase & 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
More than five years	**-**	-
	8,263	9,093
Less: deferred income	**(1,138)**	(1,377)
Net Ijara	**7,125**	7,716

13 Islamic financing and investing assets *(continued)*

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

14 Investments securities

	At fair value through profit or loss AED'000	Total AED'000
31 December 2022		
Debt instruments:		
- Unquoted in UAE	**5,751**	5,751
31 December 2021		
Debt instruments:		
- Unquoted in UAE	5,751	5,751

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

The Company has not purchased or disposed any shares during the year ended 31 December 2022.

15 Receivables and other assets

	2022 AED'000	2021 AED'000
Profit receivable	**2,142**	225
Interest receivable	**1,816**	1,791
Prepaid expenses	**3,878**	66
Other receivables and deposits	**2,830**	32
Due from related party	**104,060**	-
	114,726	2,114

16 Property, fixtures and equipment

	Motor vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Computers AED'000	Total AED'000
Cost:					
At 1 January 2021	55	2,898	797	1,864	5,614
Additions	-	-	-	-	-
At 31 December 2021	55	2,898	797	1,864	5,614
Additions	-	-	-	-	-
At 31 December 2022	**55**	**2,898**	**797**	**1,864**	**5,614**
Accumulated depreciation:					
At 1 January 2021	55	2,875	785	1,864	5,579
Charge for the year	-	23	11	-	34
At 31 December 2021	55	2,898	796	1,864	5,613
Charge for the year	-	-	1	-	1
At 31 December 2022	**55**	**2,898**	**797**	**1,864**	**5,614**
Net book value:					
At 31 December 2022	-	-	-	-	-
At 31 December 2021	-	-	1	-	1

17 Customers' deposits

	2022	2021
	AED'000	AED'000
Wakala deposits	**15,990**	13,543
Time Deposits	**299,625**	92,289
Current accounts	**272,281**	24,147
Short term investment accounts	**50,319**	390
Call Accounts	**155,046**	1,109
	793,261	131,478

Profit on Wakala deposits ranges between 1.00% and 3.50% per annum (*31 December 2021:* 0.75% and 3.25% per annum).
Total value of deposits transferred from parent (FH PJSC) to FH LLC is AED 103,550 thousand (31 December 2021: AED 49,192 thousand). Refer to Note 24.

18 Customers' margins

	2022	2021
	AED'000	AED'000
Labour guarantee	**105,407**	18,187
LG margin accounts	**112,405**	45,331
	217,812	63,518

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

Total value of customers Margin transferred from parent (FH PJSC) to FH LLC amounts to AED 117,237 thousand (31 December 2021: AED 45,616 thousand). Refer to Note 24.

19 Other liabilities

	2022	2021
	AED'000	AED'000
Profit payable	**1,421**	467
Accruals	**4,110**	437
Due to related party	-	127,652
Other payables	**4,506**	5,952
	10,037	134,508

Total liabilities transferred from FH PJSC to FH LLC amounts to AED 157,197 (31 December 2021: Nil). Refer to Note 24.

19 Other liabilities *(continued)*

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

20 Share capital

	2022	2021
	AED'000	AED'000
Authorised, issued and fully paid		
600,000 shares (2021: 600 ,000 shares) of AED 1,000 each (2021: AED 1,000 each)	**600,000**	600,000

21 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. The statutory reserve is not available for distribution.

22 Commitments and contingent liabilities

	2022	2021
	AED'000	AED'000
Letter of guarantees	**354,195**	262,164
Letter of credit	**122**	1,365
	354,317	263,529

Total value of commitments and contingent Liabilities transferred from parent (FH PJSC) to FH LLC amounts to AED 142,389 thousand (31 December 2021: AED 158,176 thousand).

23 Seasonality of results

No income of a seasonal nature was recorded in the income statement for the year ended 31 December 2022 and 31 December 2021.

24 Related party disclosures

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

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

	2022 AED'000	2021 AED'000
Balances with financial institutions:		
Finance House PJSC	**583,101**	572,074
Accounts payable to related parties:		
Insurance House - PSC	**35**	-
FH Capital PJS	**33**	10
Financing and investing assets		
Loan & Advances		
Members of board of directors	**9,052**	9,046
Other related Parties	**64,142**	60,311
Investments carried at fair value through profit and loss		
Finance House PJSC Sukuk	**5,751**	5,751
Customers' deposits		
Insurance House - PSC	**23,314**	119
FH Capital PJS	**19,750**	13,162
Other related Parties	**51**	3,168
Members of board of directors	**4**	-
	43,119	16,449
Balance due from related party		
Finance House PJSC (Parent)	**104,060**	127,652

24 Related party disclosures *(continued)*

Transactions with related parties during the period are as follows:

	2022 AED'000	2021 AED'000
Income from Wakala Deposits with financial institutions	**1,918**	296
Income from covered drawings and purchase and lease back (other related party)	**-**	129
Interest and commission income		
Members of board of directors	**527**	224
Other related Parties	**3,066**	1,624
Income from investments carried at fair value through profit or loss	**319**	348
Management fees	**4,575**	300
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**4,757**	-
Contingent liabilities - Letter of guarantees		
FH Capital PJS	**1,009**	1,009
Insurance House PJS	**265**	21
Other related Parties	**-**	6,472

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

	2022 AED'000	2021 AED'000
Letter of guarantees - Finance House PJSC	**871**	1,723

Pursuant to the reorganization plan approved by the board of directors, business consisting of loans and advance and related liabilities transferred from Finance House PJSC to Finance LLC. The company can apply exemption under common control transactions in accordance with IFRS 3 – business combinations and accordingly can adopt an accounting policy choice to account for these transactions either book value (carry-over basis) accounting or acquisition accounting.

The company has adopted book value (carry-over basis) accounting policy to account for these transactions. These transfers are considered non- cash transactions.

25 Legal proceedings

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