Finance House L.L.C.

Financial statements
For the year ended 31 December 2023

Principal business address:
P O Box 7879
Abu Dhabi
United Arab Emirates

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Directors' report for the year ended 31 December 2023

Directors' report

The Board of Directors has great pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2023.

Principal activities

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

Results for the year

During the year ended 31 December 2023, the Company reported a net profit for the year of AED 38,615 thousand (2022: net profit for the year of AED 30,113 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
Salah Salem Alsaman Alnuaimi	Director
Abdulmajeed Ismail Ali Alfahim	Director
Murtada Muhammad Sharif Al Hashemi	Director
Alia Abdulla Mohamed Almazarouei	Director

Release

The Board of Directors release from liability the management and the external auditor in connection with their duties for the year ended 31 December 2023.

Auditor

Grant Thornton UAE were the appointed auditor of the Company for the year ended 31 December 2023 and being eligible, have offered themselves for re-appointment for the year ending 31 December 2024.

The financial statements for the year ended 31 December 2023 were approved on 22 February 2024 and signed by:

On behalf of Board of Directors:

Chairman

Grant Thornton Audit and Accounting Limited – Abu Dhabi

Office 1101, 11th Floor
Al Kamala Tower
Zayed the 1st Street
Khalidiya
Abu Dhabi, UAE

T +971 2 666 9750
www.grantthornton.ae

Independent Auditor's Report
To the Shareholder of Finance House L.L.C.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Finance House L.L.C.** ("the Company"), which comprise the statement of financial position as at 31 December 2023, and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance 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 Matter

The financial statements of the Company as at and for the year ended 31 December 2022 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 31 March 2023.

Other Information

Directors are responsible for the other information contained in the financial statements which comprises the information included in the *Directors' report* which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, except for the financial information included there in, and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

Independent Auditor's Report (continued)
To the Shareholder of Finance House L.L.C.

Report on the Audit of the Financial Statements (continued)

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISA, 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 controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report (continued)
To the Shareholder of Finance House L.L.C.

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (32) of 2021, we report that for the year ended 31 December 2023:

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

ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law (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 15 to the financial statements discloses the Company's purchases or investments in shares during the financial year ended 31 December 2023;

vi) note 27 to the financial statements discloses material related party transactions and the terms under which they were conducted;

vii) note 1 to the financial statements discloses that the Company is currently in the process of amending the statutory documents, to reflect the changes required due to the application of the UAE Federal law No. (32) of 2021;

viii) based on the information that has been made available to us, except for (vii), nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2023 any of the applicable provisions of the UAE Federal Law No. (32) of 2021, or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2023; and

ix) note 11 to the financial statements discloses social contributions made during the year ended 31 December 2023.

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

Grant Thornton

GRANT THORNTON UAE

Farouk Mohamed
Registration No: 86
Abu Dhabi, United Arab Emirates

Date: 30 March 2024

Statement of financial position
As at 31 December 2023

	Note	**2023 AED'000**	2022 AED'000
ASSETS			
Cash, due from banks and financial institutions	12	**221,822**	588,990
Financial assets at fair value through profit or loss	15	**5,751**	5,751
Financial assets at amortised cost	15	**44,916**	-
Loans and advances	13	**1,646,710**	896,706
Islamic financing and investing assets	14	**14,140**	22,636
Receivables and other assets	16	**267,576**	114,726
Investment property	18	**22,540**	-
Property, fixture and equipment	17	**101,373**	-
TOTAL ASSETS		**2,324,828**	1,628,809
EQUITY AND LIABILITIES			
EQUITY			
Share capital	22	**600,000**	600,000
Statutory reserve	23	**8,990**	5,129
Retained earnings		**37,325**	2,570
TOTAL EQUITY		**646,315**	607,699
LIABILITIES			
Customers' deposits	19	**1,409,574**	793,261
Customers' margins	20	**226,107**	217,812
Other liabilities	21	**42,832**	10,037
TOTAL LIABILITIES		**1,678,513**	1,021,110
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**2,324,828**	1,628,809
Commitments and contingent liabilities	24	**395,484**	354,317

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 22 February 2024 and signed on their behalf by:

Mohammed Abdulla Jumaa Alqubaisi
Chairman

T.K. Raman
Chief Executive Officer

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2023

	Note	**2023 AED'000**	2022 AED'000
Profit on sukuk and income from Islamic financing and investing assets	7	**5,814**	3,791
Interest income	7	**158,656**	72,297
Interest expense	7	**(46,566)**	(8,670)
Net income on sukuks, interest income and profit from Islamic financing and investing assets		**117,904**	67,418
Fee and commission income	8	**20,543**	19,783
Fee and commission expense	8	**(11,035)**	(12,589)
Net fee and commission income		**9,508**	7,194
Allowances for expected credit losses on loans and advances	12	**(21,674)**	(14,105)
Reversal of allowance for expected credit losses on Islamic financing and investing assets	13	**1,436**	5,721
Other operating income	9	**38,308**	1,850
Net operating income		**145,482**	68,078
Salaries and employees related expenses	10	**(51,433)**	(25,997)
General and administrative expenses	11	**(55,434)**	(11,968)
Profit for the year		**38,615**	30,113
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**38,615**	30,113
Basic and diluted earnings per share attributable to ordinary shares (AED)	25	**64.36**	50.19

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2023

	Share capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total equity AED'000
Balance as at 1 January 2022	600,000	2,118	(24,532)	577,586
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
Balance as at 1 January 2023	**600,000**	**5,129**	**2,570**	**607,699**
Total comprehensive income for the year	**-**	**-**	**38,615**	**38,615**
Transfer to statutory reserve		**3,861**	**(3,861)**	**-**
Balance as at 31 December 2023	**600,000**	**8,990**	**37,325**	**646,315**

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2023

	Note	**2023 AED'000**	2022 AED'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**38,615**	30,113
Adjustments for:			
Depreciation		**3,173**	1
Allowances for expected credit losses on loans and advances		**21,674**	14,105
Reversal of allowance for expected credit losses on Islamic financing and investing assets		**(1,436)**	(5,721)
Operating profits before working capital changes		**62,026**	38,498
Changes in working capital:			
Change in loan and advances		**116,690**	(238,425)
Change in Islamic financing and investing assets		**9,932**	13,390
Change in receivables and other assets		**(504,830)**	(112,612)
Change in customers' deposits		**(39,801)**	558,233
Change in customers' margins		**(12,071)**	37,057
Change in other liabilities		**27,970**	(281,668)
Net cash (used in)/ generated from operating activities		**(340,084)**	14,473
Cash flows from investing activities			
Wakala deposits matured		-	5,000
Acquisition of property, fixtures and equipment		**(4,544)**	-
Acquisition of investment property		**(22,540)**	-
Net cash (used in)/generated from investing activities		**(27,084)**	5,000
Net (decrease)/increase in cash and cash equivalents		**(367,168)**	19,473
Cash and cash equivalents, beginning of year		**588,990**	569,517
Cash and cash equivalents, end of year	12	**221,822**	588,990

Note: The Company received net assets related to finance company license activities from the Parent Company which are not included in these cash flows being non-cash transactions (Note 1).

The accompanying notes from 1 to 30 form an integral part of these financial statements.

1 Legal status and principal activities

Finance House L.L.C. ("the Company") is registered in Abu Dhabi, United Arab Emirates (UAE), as a limited liability company.

The name and the legal form of the company changed from Islamic Finance House P.J.S.C. to Finance House L.L.C. on the general assembly held on 25th March 2020.

The Company was initially registered in compliance with relevant UAE Federal Law No. (2) of 2015, as amended. As of 2 January 2022, the Company is subject to compliance with UAE Federal Law No. (32) of 2021, which replaces UAE Federal Law No. (2) of 2015, as amended. The financial statements have been prepared in accordance with the requirements of the applicable laws and regulations, including UAE Federal Law No. (32) of 2021. The shareholder of the Company is currently in the process of amending the statutory documents, to reflect the changes required due to application of the UAE Federal law No. (32) of 2021.

Central Bank of the UAE Finance Companies Regulation circular no. 03/2023 issued 23 May 2023 (previously 112/2018 issued on 24 April 2018) is applicable to the Company and came into effect on 24 May 2018. On 24 October 2018, the management submitted an adjustment plan for restructuring the Company to the Central Bank of UAE. The adjustment plan was approved by the Board of Directors on the 6 February 2019 and by the Central Bank of the UAE on 10 October 2019.

The registered office of the Company is at PO Box 7879, Abu Dhabi, UAE.

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

The Company is a 100% owned subsidiary of Finance House P.J.S.C. (the "Parent Company") which consolidates the results and operations of the Company in its consolidated financial statements.

1.1 Financing business restructure

As part of the restructuring arrangement between the Parent Company and the Company, the Parent Company transferred assets and liabilities associated with the financing activity license issued by the CBUAE to the Company. The details of the assets and liabilities transferred are as follows:

1.1 Financing business restructure (continued)

	2023 AED'000	2022 AED'000
Assets acquired		
Financial assets at amortised cost	**44,916**	-
Loans and advances, net	**888,367**	539,884
Receivables and other assets	**120,700**	64,301
Property, fixtures and equipment	**92,292**	-
	1,146,275	604,185
Liabilities assumed		
Customers' deposits	**656,114**	103,550
Customers' margin	**20,366**	117,237
Other payables and liabilities	**4,827**	157,197
	681,307	377,984
Net assets acquired	**464,968**	226,201

	2023 AED'000	2022 AED'000
Off Balance Items acquired		
Commitment	**67,461**	142,389

2 Basis of preparation

2.1 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 UAE. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

2.2 Basis of measurement

The financial statements have been prepared on an accrual basis and under the historical cost convention except for investments securities at fair value and investment property that are measured at respective fair values. The financial statements have been prepared under the assumption that the Company operates on a going-concern basis.

2 Basis of preparation (continued)

2.3 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.

2.4 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 Material accounting policies

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

Standards, interpretations and amendments to existing standards that are effective in 2023

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023
- Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017
- Amendment to IFRS 17 Insurance Contracts Initial Application of IFRS 17 and IFRS 9 - Comparative Information
- Amendments to IFRS 4 Insurance Contracts Extension of the Temporary Exemption from Applying IFRS 9
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2
- Amendments to IAS 12 Income Taxes relating to Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

3 Material accounting policies (continued)

Amendment to standards and interpretations issued but not yet effective

The Company has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

Title	Effective for annual periods beginning on or after
Amendments to IFRS 16 Leases The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.	1 January 2024
Amendments to IAS 1 Presentation of Financial Statements relating to Classification of Liabilities as Current or Non-Current The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments also defer the effective date of the January 2020 amendments by one year, so that entities would be required to apply the amendment for annual periods beginning on or after 1 January 2024	1 January 2024
Amendments to IAS 1 Presentation of Financial Statements relating to Non-current Liabilities with Covenants The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	1 January 2024

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

(a) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank 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.

3 Material accounting policies (continued)

(b) 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.

All financial assets not classified as measured at amortised cost or FVOCI 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.

3 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

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 Material accounting policies (continued)

(b) 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 Material accounting policies (continued)

(b) 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 Material accounting policies (continued)

(b) 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 Material accounting policies (continued)

(c) 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 5*.

(d) Property, fixture and equipment

Recognition and measurement

Items of property, fixture 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, fixture and equipment have different useful lives, then they are accounted for as separate items (major components) of property, fixture and equipment.

Any gain or loss on disposal of an item of property, fixture 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, fixture 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, fixture and equipment for the current and comparative periods are as follows:

	Years
Motor vehicles	4
Furniture and fixtures	3-5
Office equipment	4
Building	30
Computers	3-4

3 Material accounting policies (continued)

(d) Property, fixture 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, fixture and equipment and thereafter depreciated.

(e) Investment property

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

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

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

(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.

3 Material accounting policies (continued)

(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 UAE 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.

(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.

3 Material accounting policies (continued)

(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.

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 6*.

Management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. External valuers are involved for valuation of significant assets, such as investment property. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. 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.

3 Material accounting policies (continued)

(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.

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 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 6, management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Such financial instruments are valued using discounted cash flow and capitalization of sustainable earnings analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unquoted shares includes some assumptions not supported by observable market prices or rates. Details of assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in Note 6.

ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI 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

(a) Introduction (continued)

ii) Risk measurement and reporting systems (continued)

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

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

iii) Risk mitigation

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

The Company actively uses collateral to reduce its credit risks.

iv) Risk concentration

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

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

Details of the composition of the Islamic financing and investing portfolio are provided in *note 14*. Information on credit risk relating to investments is provided in *note 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. The Company's Internal Risk Rating Scale and mapping of external ratings are set out on the next page.

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.

5 Financial risk management (continued)

(b) Credit risk (continued)

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

- The Company has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Company. The obligor has sought or has been placed in bankruptcy or similar protection wherein this would avoid or delay repayment of the credit obligation to the Company.
- The obligor is past due more than 90 days on any material credit obligation to the Company. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current outstanding.

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

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.

5 Financial risk management (continued)

(b) Credit risk (continued)

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

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.

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, EAD and LGD. These assumptions vary by product type. Refer to the note below for an explanation of forward-looking information and its inclusion in ECL calculations.

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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

(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 2023 and 31 December 2023, 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 2023, is as per the below table:

	Economic Scenarios	
Down turn	Normal	Growth
33.33%	33.33%	33.33%

The assessment of SICR is performed based on credit risk assessment following the Central Bank of UAE 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:

	2023 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	**555,771**	**36,311**	**-**	**592,082**
Grading 2	**657,089**	**271,792**	**-**	**928,881**
Grading 3	**-**	**82,376**	**117,265**	**199,641**
Grading 4	**-**	**-**	**73,704**	**73,704**
Grading 5	**-**	**-**	**319,656**	**319,656**
	1,212,860	**390,479**	**510,625**	**2,113,964**
Less: allowances for expected credit losses	**(23,657)**	**(63,972)**	**(379,625)**	**(467,254)**
Carrying amount	**1,189,203**	**326,507**	**131,000**	**1,646,710**
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	**1,337**	**-**	**-**	**1,337**
Guarantees	**361,581**	**9,842**	**945**	**372,368**
Less: allowances for expected credit losses	**(3,629)**	**(98)**	**(9)**	**(3,736)**
Carrying amount	**359,289**	**9,744**	**936**	**369,969**

5 Financial risk management (continued)

(b) Credit risk (continued)

(ix) Credit risk exposure (continued)

Credit quality analysis

	2023 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	3,144	-	-	3,144
Grading 2	612	1	-	613
Grading 3	-	3	7,889	7,892
Grading 4	-	-	380	380
Grading 5	-	-	61,291	61,291
	3,756	4	69,560	73,320
Less: allowances for expected credit losses	(162)	(1)	(59,017)	(59,180)
Carrying amount	3,594	3	10,543	14,140
Credit risk exposures relating to off-balance sheet items are as follows				
Guarantees	21,779	-	-	21,779
Less: allowances for expected credit losses	(218)	-	-	(218)
Carrying amount	21,561	-	-	21,561
Credit risk exposures relating to on-balance sheet assets				
Due from banks at investment grade	214,889	-	-	214,889
	214,889	-	-	214,889

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:

	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
Less: allowances for expected credit losses	(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
Less: allowances for expected credit losses	(3,720)	(13)	-	(3,733)
Carrying amount	323,156	50	-	323,206

5 Financial risk management *(continued)*

(b) Credit risk (continued)

(ix) Credit risk exposure (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:

	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
Less: allowances for expected credit losses	(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
Less: allowances for expected credit losses	(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)

(c) Credit risk (continued)

(x) Credit risk exposure (continued)

Collateral and other credit enhancements

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

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

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

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

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

	Loans and advances	
	2023	2022
	AED'000	AED'000
Against loans and advances not impaired:		
Property	**558,961**	208,991
Equities	**173,426**	141,469
Cash	**239,044**	231,252
Others	**43,394**	2,479
	1,014,825	584,191

	Islamic financing and investment products	
	2023	2022
	AED'000	AED'000
Against Islamic financing and investing assets not impaired:		
Property	**11,603**	12,373
Equities	**1,000**	1,000
Cash	**1,030**	10,741
Others	**180**	3,050
	13,813	27,164

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 year ended 31 December 2023 due to these factors:

	2023			
	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	15,657	10,187	230,703	256,547
Inter Company Transfers	6,757	39,179	141,355	187,291
Transfers				
From Stage 1 to Stage 2	(2,610)	2,610	-	-
From Stage 1 to Stage 3	(250)	-	250	-
From Stage 2 to Stage 1	917	(917)	-	-
From Stage 2 to Stage 3	-	(871)	871	-
From Stage 3 to Stage 1	1,132	-	(1,132)	-
From Stage 3 to Stage 2	-	3,082	(3,082)	
New financial assets originated	3,900	12,436	21,348	37,684
Reversal of no longer required impairment charges	(1,846)	(1,734)	(10,688)	(14,268)
Loss allowance as at 31 December 2023	23,657	63,972	379,625	467,254

5 Financial risk management (continued)

(b) Credit risk (continued)

(x) Loss allowance (continued)

	2023			
	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	**193**	**100**	**60,323**	**60,616**
Transfers				
From Stage 1 to Stage 2	-	-	-	-
From Stage 1 to Stage 3	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
From Stage 3 to Stage 1	-	-	-	-
From Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-
Reversal of no longer required impairment charges	**(31)**	**(99)**	**(1,306)**	**(1,436)**
Loss allowance as at 31 December 2023	**162**	**1**	**59,017**	**59,180**

The following table explain the changes in the loss allowance between the beginning and the end of the year ended 31 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				
From Stage 1 to Stage 2	(225)	225	-	-
From Stage 1 to Stage 3	(408)	-	408	-
From Stage 2 to Stage 1	1,616	(1,616)	-	-
From Stage 2 to Stage 3	-	(898)	898	-
From Stage 3 to Stage 1	820	-	(820)	-
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	-	-	-	-
From Stage 1 to Stage 2	-	-	-	-
From Stage 1 to Stage 3	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	(34)	34	-
From Stage 3 to Stage 1	-	-	-	-
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

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 2023:

	2023			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month Outstanding	**Lifetime Outstanding**	**Lifetime Outstandi ng**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Loans and advances				
Gross carrying amount as at 1 January 2023	**802,592**	**47,274**	**303,387**	**1,153,253**
Transfers	**528,375**	**325,790**	**221,493**	**1,075,658**
From Stage 1 to Stage 2	**(44,170)**	**44,170**	**-**	**-**
From Stage 1 to Stage 3	**(6,030)**	**-**	**6,030**	**-**
From Stage 2 to Stage 1	**4,323**	**(4,323)**	**-**	**-**
From Stage 2 to Stage 3	**-**	**(3,185)**	**3,185**	**-**
From Stage 3 to Stage 1	**2,262**	**-**	**(2,262)**	**-**
From Stage 3 to Stage 2	**-**	**4,068**	**(4,068)**	**-**
New financial assets originated	**139,341**	**15,101**	**3,097**	**157,538**
Repayments during the year	**(213,833)**	**(38,416)**	**(19,985)**	**(272,233)**
Reversal of no longer required impairment charges	**-**	**-**	**(252)**	**(252)**
Gross carrying amount as at 31 December 2023	**1,212,860**	**390,479**	**510,625**	**2,113,964**
Due from banks at investment grade	**214,889**	**-**	**-**	**214,889**

5 Financial risk management (continued)

(b) Credit risk (continued)
(xi) Gross carrying amount (continued)

The following table further explains the changes in the gross carrying amount from 1 January to 31 December 2023:

	2023			
	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 2023	10,510	3,091	69,651	83,252
Transfers				
From Stage 1 to Stage 2	(7)	7	-	-
From Stage 1 to Stage 3	(91)	-	91	-
From Stage 2 to Stage 1	21	(21)	-	-
From Stage 2 to Stage 3	-	(2,770)	2,770	-
From Stage 3 to Stage 1	-	-	-	-
From Stage 3 to Stage 2	-	10	(10)	-
New financial assets originated	-	-	-	-
Repayments during the year	(6,677)	(313)	(2,942)	(9,932)
Other movements				
Reversal of no longer required impairment charges	-	-	-	-
Gross carrying amount as at 31 December 2023	3,756	4	69,560	73,320
Due from banks at investment grade	214,889	-	-	214,889

There were no transfers between the stages during the year ended 31 December 2023.

	2023			
	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 2023	354,254	63	-	354,317
Transfer from Parent Company (Note 1)	60,001	6,515	945	67,461
Transfer from Stage 1 to Stage 2	(4,770)	4,770	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	10,511	-	-	10,511
Repayments during the year	(35,299)	(1,506)	-	(36,805)
Gross carrying amount as at 31 December 2023	384,697	9,842	945	395,484

5 Financial risk management (continued)

(b) Credit risk (continued)
(xi) Gross carrying amount (continued)

	2022			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing and investing assets				
Gross carrying amount as at 1 January 2022	16,314	4,662	72,288	93,264
Transfers	-	-	-	-
From Stage 1 to Stage 2	-	-	-	-
From Stage 1 to Stage 3	-	-	-	-
From Stage 2 to Stage 3				
From Stage 3 to Stage 1	-	(138)	138	-
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
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)

(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	
	2023	2022
	AED'000	AED'000
Construction	**128,579**	62,581
Services	**267,481**	-
Trade	**172,160**	126,225
Real estate	**226,399**	67,274
Manufacturing	**109,161**	11,566
Others	**1,210,184**	885,607
	2,113,964	1,153,253

	Islamic financing Assets	
	2023	2022
	AED'000	AED'000
Construction	**6,722**	6,836
Services	**7,951**	9,025
Trade	**1,365**	1,534
Real estate	**-**	5,000
Others	**57,282**	60,857
	73,320	83,252

(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)

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 2023 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	**221,822**	**-**	**-**	**-**	**221,822**
Islamic financing and investing assets	**12,460**	**245**	**1,435**	**-**	**14,140**
Loans and advances	**610,986**	**159,391**	**669,222**	**207,111**	**1,646,710**
Investments securities	**-**	**-**	**50,667**	**-**	**50,667**
Other assets	**-**	**5,808**	**-**	**-**	**5,808**
Total assets	**845,268**	**165,444**	**721,324**	**207,111**	**1,939,147**
LIABILITIES					
Customers' deposits	**1,036,392**	**268,575**	**104,607**	-	**1,409,574**
Customers' margins	**-**	**-**	**226,107**	-	**226,107**
Other liabilities	**37,529**	**-**	5,303	-	**42,832**
Total liabilities	**1,079,224**	**268,575**	**330,714**	-	**1,678,513**
Off balance sheet					
Contingent liabilities	367,651	23,910	3,923	-	**395,484**
Total	**367,651**	**23,910**	**3,923**	**-**	**395,484**

5 Financial risk management (continued)

(c) Liquidity risk (continued)

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 2022 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	588,990	-	-	-	588,990
Islamic financing and investing assets	15,887	960	5,789	-	22,636
Loans and 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
Total assets	1,487,331	2,633	138,845	-	1,628,809
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

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 statement of comprehensive income.

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 to the Company 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 FVTPL, 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 Company. 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 2023

		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	**221,822**	**-**	**221,822**
Investments securities	**50,667**	**5,751**	**44,916**
Loans and advances	**1,646,710**	**-**	**1,646,710**
Islamic financing and investing assets	**14,140**	**-**	**14,140**
Other assets	**391,489**	**-**	**391,489**
Liabilities subject to market risk			
Customers' deposits	**1,409,574**	**-**	**1,409,574**
Customers' margins	**226,107**	**-**	**226,107**
Other liabilities	**42,832**	**-**	**42,832**

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

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 comprehensive income 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 2023 and 2022.

	Equity	
	+1% Increase AED'000	**+1% Decrease AED'000**
31 December 2023		
Change of 1%	**2,401**	**(2,401)**
Cash flow sensitivity	**2,401**	**(2,401)**
31 December 2022		
Change of 1%	60	(60)
Cash flow sensitivity	60	(60)

(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 UAE 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%	**-5%**
	AED'000	**AED'000**
2023		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index		
Fixed income securities	288	(288)
Cash flow sensitivity	**288**	**(288)**
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)

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 Company'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 Company involved in the management of various operational risk elements. The ORMF ensures that operational risks within the Company 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 Company's Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Company'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 Company
- Damage to physical assets: Risk of impact to the Company 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 including investment property, in the opinion of management, the estimated carrying values and fair values of assets 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 categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The 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 2023 and 2022:

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
31 December 2023				
Investments carried at fair value through profit and loss	**-**	**-**	**5,751**	**5,751**
Investment property		**-**	**22,540**	**22,540**
	-	**-**	**28,291**	**28,291**

	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

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

Investments carried at fair value through profit or loss

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

Tier 1 perpetual Sukuk

As per the arrangement with the Parent Company, the management may sell the investments in Tier 1 perpetual Sukuks at par value to the Parent Company and accordingly these investments have been carried at par in these financial statements.

Transfers between categories

During the year, there were no transfers between Level 1, Level 2 and Level 3 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 2023.

	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	**-**	-	**221,822**
Investments securities	**5,751**	-	**44,916**
Loans and advances	**-**	-	**1,646,710**
Islamic financing and investing assets	**-**	-	**14,140**
Receivables and other assets	**-**	-	**391,489**
	5,751	**-**	**2,319,077**
Liabilities			
Customers' deposits	**-**	**-**	**1,409,574**
Customers' margins	**-**	**-**	**226,107**
Other liabilities	**-**	**-**	**42,832**
	-	**-**	**1,678,513**

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

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

	2023 AED'000	2022 AED'000
Due from banks and other financial institutions	**3,835**	1,914
Murabaha, ijarah and other Islamic financing	**1,689**	1,558
Sukuk Investments	**290**	319
	5,814	3,791
Interest income	**153,541**	72,297
Bonds Investments	**691**	-
Due from banks and financial institutions	**4,424**	-
	158,656	72,297
	164,470	76,088
Interest Expense	**(46,566)**	(8,670)
	117,904	67,418

8 Net fee and commission income

	2023 AED'000	2022 AED'000
Fee and commission income from		
Credit cards related fees	**5,056**	6,896
Corporate finance fees	**122**	69
Letters of credit and letters of guarantees	**2,490**	1,935
Other commission income	**12,875**	10,883
	20,543	19,783
Fee expense on		
Credit cards and others	**(11,035)**	(12,589)
Net fee and commission income	**9,508**	7,194

9 Other operating income

	2023 AED'000	2022 AED'000
Exceptional income*	**34,232**	1,850
Foreign exchange gains	**2,331**	-
Recovery income	**1,745**	-
	38,308	1,850

*Exceptional income represent interest in suspense released during the year for clients transferred from stage 3 to stage 2.

Notes to the financial statements (continued)
For the year ended 31 December 2023

10 Salaries and employees expenses

	2023 AED'000	2022 AED'000
Basic salaries	**12,160**	7,437
Allowances, other benefits and staff cost	**39,273**	18,560
	51,433	25,997

11 General and administrative expenses

	2023 AED'000	2022 AED'000
Rental expenses	**2,513**	-
Legal consultancy and other professional fees	**29,287**	5,622
Depreciation of property, fixture and equipment	**3,173**	1
Repairs and maintenance	**7,590**	1,058
Utilities, communication and licensing expenses	**2,988**	1,228
Security and other premises expenses	**449**	62
Advertising expenses	**1,160**	154
Other expenses	**8,274**	3,843
	55,434	11,968

12 Cash, due from banks and financial institutions

	2023 AED'000	2022 AED'000
Due from financial institutions	**-**	580,945
Due from banks	**215,025**	1,755
Cash on hand	**6,933**	6,290
	221,958	588,990
Managers cheques issued	**(136)**	-
Net cash and cash equivalents	**221,822**	588,990

13 Loans and advances

	2023 AED'000	2022 AED'000
Commercial loans		
Commercial overdraft	**342,085**	137,840
Other commercial advances	**1,227,603**	539,204
Retail finance		
Personal loans and advances	**544,276**	476,209
	2,113,964	1,153,253
Less: allowance for expected credit losses	**(467,254)**	(256,547)
	1,646,710	896,706

13 Loans and advances (continued)

The movement in the allowance for expected credit losses is as follows:

	2023	2022
	AED'000	AED'000
At 1 January	**256,547**	3,378
Charge for the year	**21,675**	14,105
Transfer from the Parent Company (note 1)	**189,283**	242,146
Amount written off	**(251)**	(3,082)
Balance at 31 December	**467,454**	256,547

The allowance for expected credit losses includes a specific provision of AED 379.6 million (2022: AED 230.7 million) for stage 3 loans.

14 Islamic financing and investing assets

	2023	2022
	AED'000	AED'000
Commodities Murabaha	**52,635**	55,543
Covered cards and drawings	**10,440**	17,411
Purchase and lease back	**-**	484
Ijara	**7,077**	6,641
Others	**3,168**	3,173
	73,320	83,252
Less: allowance for expected credit losses	**(59,180)**	(60,616)
	14,140	22,636

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

	2023	2022
	AED'000	AED'000
At 1 January	**60,616**	62,959
Charges during the year	**-**	-
Reversal during the year	**(1,436)**	(5,721)
Intercompany movement	**-**	3,378
At 31 December	**59,180**	60,616

14 Islamic financing and investing assets (continued)

The allowance for expected credit losses include a specific provision of AED 59,017 thousand (*2022:* AED 60,323 thousand*)* 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:

	2023 AED'000	2022 AED'000
Gross Ijara and, purchase and lease back		
Less than one year	**7,122**	6,447
Between one and three years	**1,138**	1,816
	8,260	8,263
Less: deferred income	**(1,183)**	(1,138)
Net Ijara	**7,077**	7,125

Present value of minimum Ijara and purchase and leaseback payments

	2023 AED'000	2022 AED'000
Less than one year	**6,221**	5,428
Between one and three years	**855**	1,697
	7,077	7,125

15 Investment securities

	At fair value through profit or loss AED'000	At amortised cost AED'000	Total AED'000
31 December 2023			
Equity instruments:			
- Unquoted in UAE (Note 27)	**5,751**	**-**	**5,751**
Debt instruments:			
- Unquoted - Fixed rate**	**-**	**44,916**	**44,916**
31 December 2022			
Equity instruments:			
- Unquoted in UAE	5,751	-	5,751

* It represents investment in Tier 1 perpetual Sukuk of a related party. It bears profit at a rate of 6.058% (2022: 6.058%) per annum.

**These represent investments in governmental bonds and carry interest at the range of 2.875% to 3% per annum.

16 Receivables and other assets

	2023 AED'000	2022 AED'000
Due from related party (Note 27)	**251,096**	104,060
Interest receivable	**8,047**	1,816
Prepaid expenses	**5,808**	3,878
Profit receivable	**154**	2,142
Other receivables and deposits	**2,471**	2,830
	267,576	114,726

17 Property, fixture and equipment

	Land AED'000	Building AED'000	Motor vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Computers AED'000	Total AED'000
Cost:							
At 1 January 2022	-	-	55	2,898	797	1,864	5,614
Additions during the year	-	-	-	-	-	-	-
At 31 December 2022	-	-	55	2,898	797	1,864	5,614
Additions during the year	-	-	-	8,863	2,888	503	12,254
Transfer during the year (Note 1)	22,286	52,514	2,426	28,884	1,618	64,734	172,462
At 31 December 2023	**22,286**	**52,514**	**2,481**	**40,645**	**5,303**	**67,101**	**190,330**
Accumulated depreciation:							
At 1 January 2022	-	-	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
Charge for the year	-	-	157	104	-	2,912	3,173
Transfer during the year (Note 1)	-	406	1,588	24,623	3,751	49,802	80,170
At 31 December 2023	**-**	**406**	**1,800**	**27,625**	**4,548**	**54,578**	**88,957**
Net book value:							
At 31 December 2023	**22,286**	**52,108**	**681**	**13,020**	**755**	**12,523**	**101,373**
At 31 December 2022	-	-	-	-	-	-	-

18 Investment property

On 30 October 2023 the Company acquired a commercial property located in Ajman as part of a loan settlement. The valuation is based on a third party valuer who used a comparable market value method in valuing the property.

19 Customers' deposits

	2023 AED'000	2022 AED'000
Time deposits	**918,580**	315,615
Current accounts	**257,578**	272,281
Call accounts	**229,010**	155,046
Short term investment accounts	**4,406**	50,319
	1,409,574	793,261

Interest on customers' deposits ranges between 0.25% and 6.50% (31 December 2022: 1.00% and 3.50%) per annum.

20 Customers' margins

	2023 AED'000	2022 AED'000
Labour guarantee	**108,407**	105,407
LG margin accounts	**117,700**	112,405
	226,107	217,812

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

21 Other liabilities

	2023 AED'000	2022 AED'000
Profit payable	**18,215**	1,421
Accruals	**14,102**	4,110
Other payables	**10,515**	4,506
	42,832	10,037

22 Share capital

	2023 AED'000	2022 AED'000
Authorised, issued and fully paid		
600,000 shares (2022: 600 ,000 shares) of AED 1,000 each (2022: AED 1,000 each)	**600,000**	600,000

23 Statutory reserve

In accordance with the UAE Federal Law No. (32) of 2021 concerning Commercial Companies, 10% of the profit is to be transferred to non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for dividend distribution.

In accordance with the requirement of Article 103 of UAE Federal Law No. (32) of 2021, the Company has appropriated 10% of its net profit amounting to AED 3,861 thousand to the statutory reserves in the current year (2022: AED 3,011 thousand).

The shareholder of the Company are currently in the process of amending the statutory documents, to reflect the changes required due to application of the UAE Federal law No. (32) of 2021.

24 Commitments and contingent liabilities

	2023	2022
	AED'000	AED'000
Letters of guarantees	**394,142**	354,195
Letters of credit	**1,342**	122
	395,484	354,317

25 Basic and diluted earnings per share

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

	2023	2022
	AED'000	AED'000
Total comprehensive income for the year	**38,615**	30,113
Number of ordinary shares in issue	**600,000**	600,000
Earnings per share (AED)	**64.36**	50.19

26 Seasonality of results

No income of a seasonal nature was recorded in the income statement for the year ended 31 December 2023 and 31 December 2022.

27 Related party disclosures

In the ordinary course of business, the Company enters into transactions with the shareholder, 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:

	2023 AED'000	2022 AED'000
Balance with Parent Company:		
Finance House P.J.S.C	**30**	583,101
Balance due to related parties		
Insurance House – P.J.S.C	**-**	35
Finance House Securities LLC	**32**	-
FH Capital P.J.S	**309**	33
Financing and investing assets		
Members of the Board of Directors	**59,984**	9,052
Finance House Securities LLC	**59,591**	35,003
Other related Parties	**55,800**	29,139
Investments carried at fair value through profit and loss		
FH TIER 1 SUKUK LIMITED	**5,751**	5,751
Customers' deposits		
Insurance House – P.J.S.C	**17,169**	23,314
FH Capital P.J.S	**30,476**	19,750
Finance House P.J.S.C.	**98,630**	-
Other related parties	**3,597**	51
Balance due from related party		
Finance House P.J.S.C.	**251,065**	104,060

27 Related party disclosures (continued)

Transactions with related parties during the year are as follows:

	2023	2022
	AED'000	AED'000
Interest and commission income:		
Members of the Board of Directors	**4,402**	527
Other related Parties	**5,214**	3,066
Profit from Sukuk	**290**	319
Management fees	**27,412**	4,575
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**3,878**	4,757
Contingent liabilities - Letter of guarantees		
FH Capital P.J.S	**1,009**	1,009
Insurance House – P.J.S.C.	**34**	265
Other related parties	**2,068**	-

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

	2023	2022
	AED'000	AED'000
Letter of guarantees - Finance House P.J.S.C. (Parent)	**30**	871

28 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.

29 Corporate tax

On 9 December 2022, the United Arab Emirates Ministry of Finance ("MoF") released Federal Decree-Law No 47 of 2022 on the Taxation of Corporations and Businesses, Corporate Tax Law ("CT Law") to implement a new CT regime in the UAE. The new CT regime is applicable for accounting periods beginning on or after 1 June 2023.

The UAE Cabinet of Ministry ("Cabinet") Decision No.116 of 2022 specifies the Threshold of the income over which the 9% tax rate would apply and accordingly, the law is now considered to be substantively enacted from the perspective of IAS 12 – Income taxes. Current taxes will only be payable for financial years beginning on or after 1 June 2023 so the Company will be subject to current tax for the first time during the year ending 31 December 2024.

Based on the assessment conducted by the Company, it has been determined that the CT Law does not have any effect on deferred taxes in the financial statements for the year ended 31 December 2023. Moving forward, the Company intends to continue to assess the potential influence of the CT Law on its financial statements, particularly focusing on both current and deferred tax implications, in light of any further explanations and instructions regarding the application of the CT Law.

30 Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 22 February 2024.