

Finance House L.L.C.

Financial statements

For the year ended 31 December 2024

Principal business address:

P O Box 7879

Abu Dhabi

United Arab Emirates

Finance House L.L.C.

**Financial statements
For the year ended 31 December 2024**

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Directors' report for the year ended 31 December 2024

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 2024.

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 2024, the Company reported a net profit for the year of AED 19,636 thousand (2023: net profit for the year of AED 38,615 thousand).

Directors

As at 31 December 2024 the directors of the Company 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

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 2024.

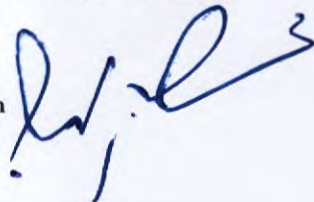
Auditor

Grant Thornton UAE were the appointed auditor of the Company for the year ended 31 December 2024 and being eligible, have offered themselves for re-appointment for the year ending 31 December 2025.

The financial statements for the year ended 31 December 2024 were approved on 08 April 2025 and signed by:

On behalf of Board of Directors:

Chairman



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

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Zayed the 1st Street
Khalidiya
Abu Dhabi, UAE

Report on the Audit of the Financial Statements

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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 2024, 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 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

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 *Auditors’ 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 Information

Management is 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 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 Accounting Standards issued by IASB 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

Furthermore, as required by the UAE Federal Law No. (32) of 2021, we report that:

- 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 in accordance with established accounting principles;
- 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 2024;
- vi) Note 28 to the financial statements discloses material related party transactions and balances, and the terms under which they were conducted;
- vii) Note 11 to the financial statements discloses social contributions made during the year ended 31 December 2024;
- viii) 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; and
- ix) based on the information that has been made available to us, except for (viii), nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2024 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 2024.

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 UAE****Farouk Mohamed
Registration No: 86
Abu Dhabi, United Arab Emirates****Date: 9 April 2025**


Finance House L.L.C.
Financial statements


Statement of financial position
As at 31 December 2024

	Note	2024 AED'000	2023 AED'000
ASSETS			
Cash, due from banks and financial institutions	12	301,811	221,822
Financial assets at fair value through profit or loss	15	5,751	5,751
Financial assets at amortised cost	15	44,916	44,916
Loans and advances	13	1,816,623	1,646,710
Islamic financing and investing assets	14	11,325	14,140
Receivables and other assets	16	468,672	267,576
Investment property	18	22,540	22,540
Property, fixture and equipment	17	97,653	101,373
TOTAL ASSETS		2,769,291	2,324,828
EQUITY AND LIABILITIES			
EQUITY			
Share capital	22	600,000	600,000
Statutory reserve	23	10,954	8,990
Impairment reserve not available for distribution		30,000	-
Retained earnings		5,688	37,325
TOTAL EQUITY		646,642	646,315
LIABILITIES			
Customers' deposits	19	1,577,661	1,409,574
Customers' margins	20	256,061	226,107
Due to banks and other financial institutions	12	9,763	-
Short term borrowings	21	230,000	-
Other liabilities	22	49,164	42,832
TOTAL LIABILITIES		2,122,649	1,678,513
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		2,769,291	2,324,828
Commitments and contingent liabilities	25	410,402	395,484

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 08 April 2025 and signed on their behalf by:


 Mohammed Abdulla Jumaa Alqubaisi
 Chairman


 T.K. Raman
 Chief Executive Officer

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Finance House L.L.C.
Financial statements

Statement of comprehensive income
For the year ended 31 December 2024

	Note	2024 AED'000	2023 AED'000
Profit on sukuk and Islamic financing and investing assets	7	718	5,814
Interest income	7	220,386	158,656
Interest expense	7	(82,084)	(46,566)
Net income on sukuku, interest income and profit from Islamic financing and investing assets		139,020	117,904
Fee and commission income	8	24,948	20,543
Fee and commission expense	8	(14,268)	(11,035)
Net fee and commission income		10,680	9,508
Allowances for expected credit losses on loans and advances (Allowances) / reversal of allowance for expected credit losses on Islamic financing and investing assets	13	(46,600)	(21,674)
Other operating income	9	22,195	38,308
Net operating income		124,540	145,482
Salaries and employee expenses	10	(53,155)	(51,433)
General and administrative expenses	11	(50,898)	(55,434)
Profit for the year before tax		20,487	38,615
Income tax expense	30	(851)	-
Profit for the year after tax		19,636	38,615
Other comprehensive income for the year		-	-
Total comprehensive income for the year		19,636	38,615
Basic and diluted earnings per share attributable to ordinary shares (AED)	26	32.73	64.36

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Finance House L.L.C.
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Statement of changes in equity
For the year ended 31 December 2024

	Share capital AED'000	Statutory reserve AED'000	Impairment reserve not available for distribution AED'000	Retained earnings AED'000	Total equity AED'000
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
Balance as at 1 January 2024	600,000	8,990	-	37,324	646,315
Total comprehensive income for the year	-	-	-	19,636	19,635
Cash dividend paid	-	-	-	(19,308)	(19,308)
Transfer to Impairment reserve not available for distribution	-	-	30,000	(30,000)	-
Transfer to statutory reserve	-	1,964	-	(1,964)	-
Balance as at 31 December 2024	600,000	10,954	30,000	5,688	646,642

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Finance House L.L.C.
Financial statements

Statement of cash flows
For the year ended 31 December 2024

	Note	2024 AED'000	2023 AED'000
Cash flows from operating activities			
Profit for the year before tax		20,487	38,615
Adjustments for:			
Depreciation		10,074	3,173
Allowances for expected credit losses on loans and advances		46,600	21,674
Allowance/(reversal) for expected credit losses on Islamic financing and investing assets		755	(1,436)
Operating profits before working capital changes		77,916	62,026
Changes in working capital:			
Change in loan and advances		(216,513)	116,690
Change in Islamic financing and investing assets		2,060	9,932
Change in receivables and other assets		(201,096)	(504,830)
Change in customers' deposits		168,087	(39,801)
Change in customers' margins		29,954	(12,071)
Change in other liabilities		5,479	27,970
Net cash used in operating activities		(134,113)	(340,084)
Cash flows from investing activities			
Acquisition of property, fixtures and equipment		(6,353)	(4,544)
Acquisition of investment property		-	(22,540)
Net cash used in investing activities		(6,353)	(27,084)
Cash flows from financing activities			
Cash dividend paid		(19,308)	-
Proceeds from short term borrowings		230,000	-
Net cash generated from financing activities		210,692	-
Net increase/(decrease) in cash and cash equivalents		70,226	(367,168)
Cash and cash equivalents, beginning of year		221,822	588,990
Cash and cash equivalents, end of year	12	292,048	221,822

Note: During 2023 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.

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Finance House L.L.C.
Financial statements

Notes to the financial statements
For the year ended 31 December 2024

1 Legal status and principal activities

Finance House L.L.C. (“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 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.

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

The Company is licensed by the Central Bank of the UAE (CBUAE) as finance company in accordance with Finance Companies Regulations issued on 23 May 2023.

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

2 Basis of preparation

2.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) [IFRS Accounting Standards] and the applicable requirements of the laws in the UAE. The financial statements comply with IFRS Accounting Standards.

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.

2.3 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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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 2024

The following new and revised IFRS Accounting Standards, which became effective for annual periods beginning on or after 1 January 2024, 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.

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

Finance House L.L.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2024

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
Lack of Exchangeability (Amendments to IAS 21) The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.	1 January 2025
Amendments to the SASB standards to enhance their international applicability. The amendments remove and replace jurisdiction-specific references and definitions in the SASB standards, without substantially altering industries, topics or metrics	1 January 2025
IFRS 18 Presentation and Disclosures in Financial Statements: IFRS 18 includes requirements for all entities applying IFRS for the presentation and disclosure of information in financial statements.	1 January 2027
IFRS 19 Subsidiaries without Public Accountability: Disclosures: IFRS 19 specifies reduced disclosure requirements that an eligible entity is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards.	1 January 2027

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

Classification and subsequent measurement (continued)

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.

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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”)

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.

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

Derecognition (continued)

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 liability.

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

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

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

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.

3 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

Modification of financial assets and financial liabilities (continued)

Financial assets (continued)

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.

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

Modification of financial assets and financial liabilities (continued)

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the 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.

(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*.

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Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(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	50
Computers	3-4

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(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 compared at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

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

(g) Provisions

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

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(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 Accounting Standards, or for gains and losses arising from a Company of similar transactions such as in the Company's trading activity.

(k) Fair values measurements

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(k) Fair values measurements (continued)

- 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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(I) 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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

3 Material accounting policies (continued)

(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.

(n) Tax

The income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to the tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets or liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets or liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

4 Significant accounting judgements and estimates (continued)

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit risk measurement (continued)

Credit risk grading (continued)

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

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

Retail

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

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

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

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

Wholesale

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

Treasury

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

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Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

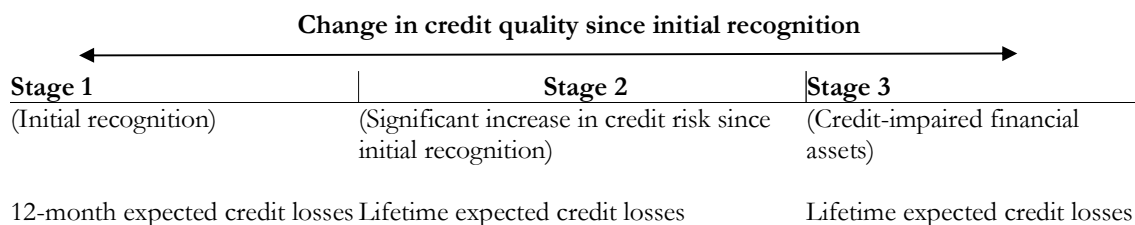
(b) Credit risk (continued)

(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:



Significant increase in credit risk (SICR)

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

Quantitative criteria

Corporate Facility:

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Company's asset portfolio (except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Company which is based on the Company's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

The Risk Rating system for performing assets ranges from 1 to 19, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated 20, 21, 22, corresponding to the Substandard, Doubtful and Loss classifications as per Clarifications and Guidelines Manual for Circular No. 28/2012 issued by the Central Bank of the UAE. The Company's internal credit grades have also been mapped to external agency ratings for better comparison. The below table maps risk ratings to the grading used:

Sr	Grading	Risk rating
1	Grading 1	1 to 5
2	Grading 2	-5 to 7
3	Grading 3	8
4	Grading 4	9
5	Grading 5	10

Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(b) Credit risk (continued)

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

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

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

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

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

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(b) Credit risk (continued)

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

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

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

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

(viii) Forward looking information incorporated in the ECL models

The 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 2024 and 31 December 2024, 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 2024, 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.

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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:

	2024			Total AED'000
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
	Loans and advances			
Grading 1	563,235	18,213	-	581,448
Grading 2	941,226	158,356	-	1,099,582
Grading 3	-	139,847	18,146	157,993
Grading 4	-	-	16,703	16,703
Grading 5	-	-	460,741	460,741
	<u>1,504,461</u>	<u>316,416</u>	<u>495,590</u>	<u>2,316,467</u>
Less: allowances for expected credit losses	<u>(34,845)</u>	<u>(71,760)</u>	<u>(393,239)</u>	<u>(499,844)</u>
Carrying amount	<u>1,469,616</u>	<u>244,656</u>	<u>102,351</u>	<u>1,816,623</u>
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	3,621	-	-	3,621
Guarantees	405,968	9,548	945	416,461
Less: allowances for expected credit losses	<u>(4,097)</u>	<u>(95)</u>	<u>(9)</u>	<u>(4,201)</u>
Carrying amount	<u>405,492</u>	<u>9,453</u>	<u>936</u>	<u>415,881</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(b) Credit risk (continued)

(ix) Credit risk exposure (continued)

Credit quality analysis

	2024			Total AED'000
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
Islamic financing and investing assets				
Grading 1	2,586	-	-	2,586
Grading 2	133	1	-	134
Grading 3	-	-	8,210	8,210
Grading 4	-	-	912	912
Grading 5	-	-	59,418	59,418
	2,719	1	68,540	71,260
Less: allowances for expected credit losses	(138)	-	(59,797)	(59,935)
Carrying amount	2,581	1	8,743	11,325
Credit risk exposures relating to off-balance sheet items are as follows				
Guarantees	20,748	-	-	20,748
Less: allowances for expected credit losses	(207)	-	-	(207)
Carrying amount	20,541	-	-	20,541
Credit risk exposures relating to on-balance sheet assets				
Due from banks at investment grade	293,321	-	-	293,321
	293,321	-	-	293,321

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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:

	2023			Total AED'000
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL 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

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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:

	2023			Total AED'000
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL 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
	<u>3,756</u>	<u>4</u>	<u>69,560</u>	<u>73,320</u>
Less: allowances for expected credit losses	<u>(162)</u>	<u>(1)</u>	<u>(59,017)</u>	<u>(59,180)</u>
Carrying amount	<u>3,594</u>	<u>3</u>	<u>10,543</u>	<u>14,140</u>
Credit risk exposures relating to off-balance sheet items are as follows				
Guarantees	21,779	-	-	21,779
Less: allowances for expected credit losses	<u>(218)</u>	<u>-</u>	<u>-</u>	<u>(218)</u>
Carrying amount	<u>21,561</u>	<u>-</u>	<u>-</u>	<u>21,561</u>
Credit risk exposures relating to on-balance sheet assets				
Due from banks at investment grade	<u>214,889</u>	<u>-</u>	<u>-</u>	<u>214,889</u>
	214,889	-	-	214,889

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Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(c) Credit risk (continued)

(ix) Credit risk exposure (continued)

Collateral and other credit enhancements

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

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

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

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

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

	Loans and advances and investment products	
	2024	2023
	AED'000	AED'000
Against individually impaired loans and advances:		
Property	12,287	13,330
Equities	-	64
Cash	221	221
Others	7,153	7,153
Total against Individually impaired	19,661	20,768
Against loans and advances not impaired:		
Property	618,975	557,234
Equities	416,872	173,542
Cash	316,656	239,823
Others	24,009	37,271
Total against not impaired	1,376,512	1,007,870

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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 2024 due to these factors:

	2024			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
Loans and advances				
Loss allowance as at 1 January	23,657	63,972	379,625	467,254
Transfers				
From Stage 1 to Stage 2	(492)	492	-	-
From Stage 1 to Stage 3	(368)	-	368	-
From Stage 2 to Stage 1	1,046	(1,046)	-	-
From Stage 2 to Stage 3	-	(1,100)	1,100	-
From Stage 3 to Stage 1	1	-	(1)	-
From Stage 3 to Stage 2	-	25	(25)	-
New financial assets originated	13,900	15,350	19,468	48,718
Reversal of no longer required impairment charges	(2,899)	(5,933)	(7,296)	(16,128)
Loss allowance as at 31 December 2024	<u>34,845</u>	<u>71,760</u>	<u>393,239</u>	<u>499,844</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(b) Credit risk (continued)

(x) Loss allowance (continued)

	2024			
	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
AED'000	AED'000	AED'000	AED'000	
Islamic financing and investing assets				
Loss allowance as at 1 January	162	1	59,017	59,180
Transfers				
From Stage 1 to Stage 2	(1)	-	1	-
From Stage 1 to Stage 3	(1)	-	1	-
Changes in PDs/LGDs/EADs	-	-	1,260	1,260
Reversal of no longer required impairment charges	(22)	(1)	(482)	(505)
Loss allowance as at 31 December 2024	<u>138</u>	<u>-</u>	<u>59,797</u>	<u>59,935</u>

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	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
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	<u>23,657</u>	<u>63,972</u>	<u>379,625</u>	<u>467,254</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(b) Credit risk (continued)

(x) Loss allowance (continued)

	2023			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
Islamic financing and investing assets				
Loss allowance as at 1 January	193	100	60,323	60,616
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

(xi) Gross carrying amount

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

	2024			Total AED'000
	Stage 1 12-month Outstanding AED'000	Stage 2 Lifetime Outstanding AED'000	Stage 3 Lifetime Outstanding AED'000	
Loans and advances				
Gross carrying amount as at 1 January 2024	1,212,860	390,479	510,625	2,113,964
Transfers				
From Stage 1 to Stage 2	(8,989)	8,989	-	-
From Stage 1 to Stage 3	(5,811)	-	5,811	-
From Stage 2 to Stage 1	4,499	(4,499)	-	-
From Stage 2 to Stage 3	-	(4,330)	4,330	-
From Stage 3 to Stage 1	1	-	(1)	-
From Stage 3 to Stage 2	-	33	(33)	-
New financial assets originated	395,538	19,025	1,959	416,522
Repayments during the year	(93,665)	(93,253)	(27,101)	(214,019)
Gross carrying amount as at 31 December 2024	1,504,433	316,444	495,590	2,316,467
Due from banks at investment grade	293,321	-	-	293,321

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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 2024:

	2024			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
Islamic financing and investing assets				
Gross carrying amount as at 1 January 2024	3,754	4	69,562	73,320
Transfers				
From Stage 1 to Stage 2	-	-	-	-
From Stage 1 to Stage 3	(2)	-	2	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	(1)	1	-
From Stage 3 to Stage 1	-	-	-	-
From Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	(1,033)	(2)	(1,025)	(2,060)
Gross carrying amount as at 31 December 2024	2,719	1	68,540	71,260

There were no transfers between the stages during the year ended 31 December 2024.

	2024			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	
Off-balance sheet items				
Gross carrying amount as at 1 January 2024	439,019	8,842	945	448,806
Transfer from Parent Company	-	-	-	-
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	47,145	610	-	47,755
Repayments during the year	(40,756)	-	(9)	(40,765)
Gross carrying amount as at 31 December 2024	445,408	9,452	936	455,796

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Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(b) Credit risk (continued)

(xi) Gross carrying amount (continued)

	2023			Total AED'000
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
	AED'000	AED'000	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 3	21	(21)	-	-
From Stage 3 to Stage 1	-	(2,770)	2,770	-
From Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	10	(10)	-
Repayments during the year	-	-	-	-
Other movements	(6,677)	(313)	(2,942)	(9,932)
Reversal of no longer required impairment charges	-	-	-	-
Gross carrying amount as at 31 December 2023	<u>3,756</u>	<u>4</u>	<u>69,560</u>	<u>73,320</u>

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

	2023			Total AED'000
	Stage 1	Stage 2	Stage 3	
	12-month	Life time	Life time	
	ECL	ECL	ECL	
	AED'000	AED'000	AED'000	
Off-balance sheet items				
Gross carrying amount as at 1 January 2023	354,254	63	-	354,317
Transfer from Parent Company	60,001	6,515	-	67,461
Transfer from Stage 1 to Stage 2	(4,770)	4,770	945	-
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	10,511	-	-	10,511
Repayments during the year	<u>(35,299)</u>	<u>(1,506)</u>	<u>-</u>	<u>(36,805)</u>
Gross carrying amount as at 31 December 2023	<u>384,697</u>	<u>9,842</u>	<u>945</u>	<u>395,484</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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	
	2024	2023
	AED'000	AED'000
Construction	114,174	128,579
Services	311,789	267,481
Trade	220,786	172,160
Real estate	291,405	226,399
Manufacturing	121,055	109,161
Others	1,257,258	1,210,184
	<u>2,316,467</u>	<u>2,113,964</u>

	Islamic financing Assets	
	2024	2023
	AED'000	AED'000
Construction	6,782	6,722
Services	7,733	7,951
Trade	1,698	1,365
Others	55,047	57,282
	<u>71,260</u>	<u>73,320</u>

(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

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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 assets and liabilities at 31 December 2024 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	301,811	-	-	-	301,811
Islamic financing and investing assets	10,328	-	997	-	11,325
Loans and advances	791,779	101,863	671,607	251,374	1,816,623
Investments securities	-	-	50,667	-	50,667
Other assets	-	468,672	-	120,193	588,865
Total assets	1,103,918	570,535	723,271	371,567	2,769,291
LIABILITIES					
Customers' deposits	1,140,638	339,613	97,410	-	1,577,661
Customers' margins	256,061	-	-	-	256,061
Short term borrowings	80,000	150,000	-	-	230,000
Other liabilities	49,866	-	9,061	-	58,927
Total liabilities	1,526,565	489,613	106,471	-	2,122,649
Off balance sheet					
Contingent liabilities	358,508	44,374	7,520	-	410,402
Total	358,508	44,374	7,520	-	410,402

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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 assets and liabilities at 31 December 2023 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	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	-	-	50,667	-	50,667
Other assets	-	267,576	-	123,913	391,489
Total assets	845,268	427,212	721,324	331,024	2,324,828
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

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

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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 2024	Market risk measure	
		Carrying amount AED'000	Trading portfolio AED'000
Assets subject to market risk			
Cash, due from banks and financial institutions	301,811	-	301,811
Investments securities	50,667	5,751	44,916
Loans and advances	1,816,623	-	1,816,623
Islamic financing and investing assets	11,325	-	11,325
Other assets	588,865	-	588,865
Liabilities subject to market risk			
Customers' deposits	1,577,661	-	1,577,661
Customers' margins	256,061	-	256,061
Due to banks and other financial institutions	9,763	-	9,763
Short term borrowings	230,000	-	230,000
Other liabilities	49,164	-	49,164
31 December 2023			
	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

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Notes to the financial statements (continued)
For the year ended 31 December 2024

5 Financial risk management (continued)

(d) Market risk (continued)

(i) Interest rate risk

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

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

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

The sensitivity of the comprehensive income is the effect of the assumed changes in interest rates on the Company's profit for the year, based on the floating rate financial assets and liabilities held at 31 December 2024 and 2023.

	Equity	
	+1%	+1%
	Increase	Decrease
	AED'000	AED'000
31 December 2024	5,385	(9,057)
31 December 2023	2,401	(2,401)

(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.

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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
2024		
<i>Investments carried at fair value through profit or loss</i>		
<i>Abu Dhabi Securities Market Index</i>		
Fixed income securities	288	(288)
Cash flow sensitivity	288	(288)
2023		
<i>Investments carried at fair value through profit or loss</i>		
<i>Abu Dhabi Securities Market Index</i>		
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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

Notes to the financial statements (continued)
For the year ended 31 December 2024

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.

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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 2024 and 2023:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2024				
Investments carried at fair value through profit and loss	-	-	5,751	5,751
Investment property	-	-	22,540	22,540
	<u>-</u>	<u>-</u>	<u>28,291</u>	<u>28,291</u>
	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
	<u>-</u>	<u>-</u>	<u>28,291</u>	<u>28,291</u>

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

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.

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Notes to the financial statements
For the year ended 31 December 2024

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 2024.

	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	-	-	301,811
Investments securities	5,751	-	44,916
Loans and advances	-	-	1,816,623
Islamic financing and investing assets	-	-	11,325
Receivables and other assets	-	-	588,865
	5,751	-	2,763,540
Liabilities			
Customers' deposits	-	-	1,577,661
Customers' margins	-	-	256,061
Due to banks and other financial institutions	-	-	9,763
Short term borrowings	-	-	230,000
Other liabilities	-	-	49,164
	-	-	2,122,649

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

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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

	2024 AED'000	2023 AED'000
Due from banks and other financial institutions	-	3,835
Murabaha, ijarah and other Islamic financing	312	1,689
Sukuk Investments	406	290
	<u>718</u>	<u>5,814</u>
Interest income	201,221	153,541
Income on investment in bonds	1,354	691
Due from banks and financial institutions	17,811	4,424
	<u>220,386</u>	<u>158,656</u>
Interest expense on:		
customers' deposits and margin accounts	(68,230)	(46,566)
due to banks and other financial institutions	(13,854)	-
	<u>(82,084)</u>	<u>(46,566)</u>

8 Net fee and commission income

	2024 AED'000	2023 AED'000
Fee and commission income from		
Credit cards and other retail fees	13,515	11,337
Corporate finance fees	8,655	5,489
Letters of credit and letters of guarantees	2,588	2,553
Other commission	190	1,164
	<u>24,948</u>	<u>20,543</u>
Fee expense on		
Credit cards and other retail fees	(13,539)	(10,423)
Other fee expense	(729)	(612)
	<u>(14,268)</u>	<u>(11,035)</u>
Net fee and commission income	<u>10,680</u>	<u>9,508</u>

9 Other operating income

	2024 AED'000	2023 AED'000
Recovery of impaired loans and interest	16,485	35,977
Rental income	4,400	-
Foreign exchange gains	1,310	2,331
	<u>22,195</u>	<u>38,308</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2024

10 Salaries and employee expenses

	2024 AED'000	2023 AED'000
Basic salaries	12,096	12,160
Allowances, other benefits and staff cost	41,059	39,273
	<u>53,155</u>	<u>51,433</u>

11 General and administrative expenses

	2024 AED'000	2023 AED'000
Legal consultancy and other professional fees	11,600	29,287
Depreciation of property, fixture and equipment	10,074	3,173
Repairs and maintenance	9,476	7,590
Utilities, communication and licensing expenses	4,515	2,988
Rental expenses	2,391	2,513
Advertising expenses	1,609	1,160
Security and other premises expenses	522	449
Other expenses	10,711	8,274
	<u>50,898</u>	<u>55,434</u>

During the year, there were no social contributions (2023: Nil)

12 Cash, due from banks and financial institutions

	2024 AED'000	2023 AED'000
Due from banks	293,321	214,889
Cash on hand	8,490	6,933
	<u>301,811</u>	<u>221,822</u>
Due to banks and other financial institutions with original maturity of less than three months	(9,763)	-
Net cash and cash equivalents	<u>292,048</u>	<u>221,822</u>

13 Loans and advances

	2024 AED'000	2023 AED'000
Commercial loans		
Commercial overdraft	469,211	342,085
Other commercial advances	1,251,673	1,227,603
Retail finance		
Personal loans and advances including credit cards	595,583	544,276
	<u>2,316,467</u>	<u>2,113,964</u>
Less: allowance for expected credit losses	(499,844)	(467,254)
	<u>1,816,623</u>	<u>1,646,710</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2024

13 Loans and advances (continued)

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

	2024 AED'000	2023 AED'000
At 1 January	467,254	256,547
Charge for the year	46,600	21,675
Transfer from the Shareholder	-	189,283
Reversal of no longer required impairment charges	(5,251)	-
Amounts written off	(8,759)	(251)
Balance at 31 December	499,844	467,254

The allowance for expected credit losses includes a specific provision of AED 393,239 thousands (2023: AED 379,625 thousands) for stage 3 loans.

14 Islamic financing and investing assets

	2024 AED'000	2023 AED'000
Commodities Murabaha	51,834	52,635
Covered cards and drawings	9,496	10,440
Ijara	6,656	7,077
Others	3,274	3,168
	71,260	73,320
Less: Allowance for expected credit losses	(59,935)	(59,180)
	11,325	14,140

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:

	2024 AED'000	2023 AED'000
At 1 January	59,180	60,616
Charges during the year	755	-
Reversal during the year	-	(1,436)
At 31 December	59,935	59,180

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14 Islamic financing and investing assets (continued)

The allowance for expected credit losses include a specific provision of AED 59,796 thousand (2023: AED 59,017 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:

	2024 AED'000	2023 AED'000
Gross Ijara and, purchase and lease back		
Less than one year	6,200	7,122
Between one and three years	568	1,138
	<u>6,768</u>	<u>8,260</u>
Less: deferred income	(112)	(1,183)
Net Ijara	<u>6,656</u>	<u>7,077</u>

Present value of minimum Ijara and purchase and leaseback payments

	2024 AED'000	2023 AED'000
Less than one year	6,088	6,221
Between one and three years	568	856
	<u>6,656</u>	<u>7,077</u>

15 Investment securities

	At fair value through profit or loss AED'000	At amortised cost AED'000	Total AED'000
31 December 2024			
Equity instruments:			
- Unquoted in the UAE* (Note 28)	5,751	-	5,751
Debt instruments:			
- Unquoted - Fixed rate**	-	44,916	44,916
31 December 2023			
Equity instruments:			
- Unquoted in the UAE* (note 28)	5,751	-	5,751
Debt Instruments:			
-Unquoted- Fixed rate **	-	44,916	44,916

* It represents investment in Tier 1 perpetual Sukuk of a related party. It bears profit at a rate of 6.058% (2023: 6.058%) per annum.

**These represent investments in governmental bonds and carry interest at the range of 2.875% to 3% (2023: 2.875% to 3%) per annum.

16 Receivables and other assets

	2024 AED'000	2023 AED'000
Due from related party (Note 28)	440,776	251,096
Interest receivable	12,004	8,047
Prepaid expenses	10,293	5,808
Profit receivable	196	154
Other receivables and deposits	5,403	2,471
	<u>468,672</u>	<u>267,576</u>

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Notes to the financial statements (continued)
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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
<i>Cost:</i>							
At 1 January 2023	-	-	55	2,898	797	1,864	5,614
Additions during the year	-	-	-	8,863	2,888	503	12,254
Transfer during the year	22,286	52,514	2,426	-	1,618	64,734	172,462
At 31 December 2023	22,286	52,514	2,481	40,645	5,303	67,101	190,330
Additions during the year	-	-	-	4,719	-	1,614	6,333
Disposals during the year	-	(512)	-	-	-	-	(512)
At 31 December 2024	22,286	52,002	2,481	45,364	5,303	68,715	196,151
<i>Accumulated depreciation:</i>							
At 1 January 2023	-	-	55	2,898	797	1,864	5,614
Charge for the year	-	-	157	104	-	2,912	3,173
Transfer during the year	-	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
Charge for the year	-	1,860	267	3,134	383	4,430	10,074
Adjustment & Transfer during the year	-	(21)	-	-	-	-	(21)
Disposals during the year	-	(512)	-	-	-	-	(512)
At 31 December 2024	-	1,733	2,067	30,759	4,931	59,008	98,498
<i>Net book value:</i>							
At 31 December 2024	22,286	50,269	414	14,605	372	9,707	97,653
At 31 December 2023	22,286	52,108	681	13,020	755	12,523	101,373

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Notes to the financial statements (continued)
For the year ended 31 December 2024

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

	2024 AED'000	2023 AED'000
Time deposits	1,074,037	918,580
Current accounts	438,921	257,578
Call accounts	57,566	229,010
Short term investment accounts	7,137	4,406
	1,577,661	1,409,574

Interest on customers' deposits ranges between 0.25% and 6.50% (31 December 2023: 0.25% and 6.50%) per annum.

20 Customers' margins

	2024 AED'000	2023 AED'000
Labour guarantee	123,739	108,407
LG margin accounts	132,322	117,700
	256,061	226,107

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 Short term borrowings

	Maturity	2024 AED'000	2023 AED'000
Term Loan 1	1 September 2025	150,000	-
Term Loan 2	6 March 2025	80,000	-
		230,000	-

These represent short-term borrowings obtained from commercial banks, secured by the guarantee provided by the shareholder and bear interest at the rate of 3 months EIBOR plus 2.5% per annum (2023: Nil).

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Notes to the financial statements (continued)
For the year ended 31 December 2024

22 Other liabilities

	2024 AED'000	2023 AED'000
Profit payable	16,675	18,215
Accruals	15,803	14,102
Other payables	16,686	10,515
	<u>49,164</u>	<u>42,832</u>

23 Share capital

	2024 AED'000	2023 AED'000
Authorised, issued and fully paid		
600,000 shares (2023: 600,000 shares)		
of AED 1,000 each (2023: AED 1,000 each)	<u>600,000</u>	<u>600,000</u>

24 Statutory reserve

In accordance with the CBUAE Finance Companies Regulation Circular No. 112/2018 of 2018, 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 the Company has appropriated 10% of its net profit amounting to AED 1,964 thousand to the statutory reserves in the current year (2023: AED 3,861 thousand).

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.

25 Commitments and contingent liabilities

	2024 AED'000	2023 AED'000
Letters of guarantees	406,781	394,142
Letters of credit	3,621	1,342
	<u>410,502</u>	<u>395,484</u>

26 Basic and diluted earnings per share

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

	2024 AED'000	2023 AED'000
Total comprehensive income for the year	<u>19,636</u>	38,615
Number of ordinary shares in issue	<u>600,000</u>	600,000
Earnings per share (AED)	32.73	64.36

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Notes to the financial statements (continued)
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27 Seasonality of results

No income of a seasonal nature was recorded in the statement of comprehensive income for the years ended 31 December 2024 and 31 December 2023.

28 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 statement of financial position are as follows:

	2024 AED'000	2023 AED'000
<u>Balance with Parent Company:</u>		
Finance House P.J.S.C	30	30
<u>Balance due to related parties</u>		
Insurance House – P.J.S.C	181	-
Finance House Securities LLC	41	32
FH Capital P.J.S	52	309
<u>Financing and investing assets</u>		
Members of the Board of Directors	62,282	59,984
Finance House Securities LLC	45,577	59,591
Other related parties	54,776	55,800
<u>Investments carried at fair value through profit and loss</u>		
FH Tier 1 Sukuk Limited	5,751	5,751
<u>Customers' deposits</u>		
Insurance House – P.J.S.C	15,244	17,169
FH Capital P.J.S	14,024	30,476
Finance House P.J.S.C.	-	98,630
Other related parties	4,336	3,597
<u>Balance due from related party</u>		
Finance House P.J.S.C.	440,776	251,065

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Notes to the financial statements (continued)
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28 Related party disclosures (continued)

Transactions with related parties during the year are as follows:

	2024	2023
	AED'000	AED'000
<u>Interest and commission income:</u>		
Members of the Board of Directors	4,361	4,402
Finance House P.J.S.C. (shareholder)	33,015	3,835
Other related parties	6,498	1,379
Profit from Sukuk	406	290
Management fees to shareholder	10,000	27,412
<u>Key management remuneration</u>		
Short term benefits (salaries, benefits and bonuses)	2,510	3,878
<u>Contingent liabilities - Letter of guarantees</u>		
FH Capital P.J.S	1,009	1,009
Insurance House – P.J.S.C.	74	34
Other related parties	2,256	2,068

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

	2024	2023
	AED'000	AED'000
Letter of guarantees - Finance House P.J.S.C. (Parent)	30	30

29 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.

30 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 tax rate applicable in the UAE is 9% (2023: 0%) for taxable profit exceeding AED 375,000. The overall effective tax rate for the tax group is 9.31% (2023: 0%).

The difference between the applicable tax rate and the company effective tax rate arises due to various adjustments being made in accordance with the corporate tax law which are stated:

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Notes to the financial statements (continued)
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30 Corporate tax (continued)

	2024	2023
	AED '000	AED '000
Profit before taxation	20,487	-
Prima facie tax expense at 9% (2023: 0%)	1,844	-
Tax effect of difference:		
Tax effect of exempt income	37	-
Tax effect of non-deductible expense	(110)	-
Tax effect of different tax rate of subsidiaries operating in foreign jurisdiction	-	-
Changes in deferred tax	-	-
Unrecoverable withholding tax	-	-
Others (Due to the impact of the Corporate tax group)	(920)	-
Tax expense	851	-

31 Events after the reporting date

No adjusting or significant non-adjusting events have occurred between the 31 December 2024 and the date of authorisation.

32 Approval of financial statements and events after report date

No adjusting or significant non-adjusting events have occurred between the 31 December reporting date and the date of authorisation.

The financial statements were approved and authorized for issue by the Board of Directors on 08 April 2025.