

Finance House P.J.S.C

Consolidated financial statements
For the year ended 31 December 2023

Principal business address:

P O Box 7878
Abu Dhabi
United Arab Emirates

Finance House P.J.S.C

Consolidated financial statements For the year ended 31 December 2023

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Independent Auditor's Report**To the Shareholders of Finance House P.J.S.C****Report on the Audit of the Consolidated Financial Statements****Qualified Opinion**

We have audited the consolidated financial statements of Finance House P.J.S.C (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2023 and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

The Group’s investment in Empay LLC, an investment in associate accounted for using the equity method, is carried at AED 34,450 thousand on the consolidated statement of financial position as at 31 December 2023. We were unable to obtain sufficient appropriate audit evidence on the carrying amount of the Group’s investment in Empay LLC as at 31 December 2023, the Group’s share of Empay LLC’s results for the year and related disclosures because there was no financial information available for Empay LLC. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

Independent Auditor's Report

To the Shareholders of Finance House P.J.S.C

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters.

Key Audit Matter	How our audit Addressed the Key Audit Matter
<u>Impairment of loans, advances and Islamic finance</u>	
The Group recognized allowances for credit losses in its consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward-looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and/or modelling techniques do not capture all relevant risk factors captured by the models. This is considered a key audit matter, as the determination of ECL involves significant management judgement estimates, use of complex models and this has a material impact on the consolidated financial statements of the Group.	Our audit procedures in this area include the following, among others. • Obtained an understanding of the credit risk management process and estimation process of determining impairment allowances for loans, advances and Islamic finance and tested the operating effectiveness of relevant controls within these operations. • For a sample of exposures, performed a detailed credit review and challenged the appropriateness of the Group's application of the staging criteria including adequacy of provisioning. • Tested the completeness and accuracy of the data used in the calculation of ECL.

**Independent Auditor's Report
To the Shareholders of Finance House P.J.S.C**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matter (continued)

Key Audit Matter	How our audit Addressed the Key Audit Matter
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Impairment of loans, advances and Islamic finance (continued)

- We involved our IFRS 9 experts to assess:
 - o the conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9 – Financial Instruments.
 - o ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) including reasonableness of the assumptions.
 - o the appropriateness of the macro-economic variables, multiple economic scenarios chosen and scenario weightings.
- Tested the calculation methodology and traced a sample back to source data for a sample of wholesale and retail exposures.
- Evaluated post model adjustments and management overlays in order to assess the reasonableness of these judgements.
- The Group performed an external validation of key variables i.e. probability of default and loss given default, including macroeconomic, used in calculating the ECL during the year. We considered the process of this external validation of the models and its impact on the results of the impairment estimate.
- For the Stage 3 exposures and for a sample of wholesale exposures we also assessed whether relevant impairment events were identified in a timely manner and the appropriateness of the provisioning assumptions such as estimated future cash flows, collateral valuations and estimates of recovery.
- Assessed the disclosure in the consolidated financial statements relating to ECL against the requirements of IFRS 7.

**Independent Auditor's Report
To the Shareholders of Finance House P.J.S.C**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matter (continued)

Key Audit Matter	How our audit Addressed the Key Audit Matter
Impact of adopting IFRS 17 “Insurance Contracts” and its related disclosures The Group adopted IFRS 17 Insurance Contracts with effect from 1 of January 2023, which resulted in changes to the measurement of insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. We determined the disclosure for impact of adopting IFRS 17 to be a key audit matter due to the significant changes introduced by the standard, which includes significant estimates and judgements. These impacts will be of particular importance to the readers of these financial statements (Refer to Note 3a and Note 4). In particular, we have focused on the following key judgements that management have taken on implementing IFRS 17 Insurance Contracts: - The determination of the transition approach adopted for each group of insurance contracts. - The methodology adopted, and key assumptions used to determine the impact and restatement of previously reported numbers in accordance with IFRS 17. - Disclosure of the impact of restatement, in accordance with IFRS 17.	Our audit procedures, among others, include: • Assessing whether the judgements applied by management in determining their accounting policies are in accordance with IFRS 17. • Using our actuarial specialist team members, evaluated the appropriateness of the methodology used to determine discount rates as at the transition date. • Evaluating the appropriateness of significant assumptions including risk adjustment, PAA eligibility assessment, discount rates and expenses included within the fulfilment cashflows. • Evaluating the completeness, and on sample basis, the accuracy and relevance of the data used to determine the impact of IFRS 17 adoption and restatement. • Evaluated the reasonableness of the quantitative and qualitative disclosures included in the financial statements in accordance with IFRS 17.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2022 were audited by another auditor, who expressed a qualified opinion on those financial statements on 14 February 2023.

**Independent Auditor's Report
To the Shareholders of Finance House P.J.S.C**

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information, except for the financial information included therein, and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



**Independent Auditor's Report
To the Shareholders of Finance House P.J.S.C**

Report on the Audit of the Consolidated Financial Statements (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

**Independent Auditor's Report
To the Shareholders of Finance House P.J.S.C**

Report on Other Legal and Regulatory Requirements

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

- (i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (32) of 2021;
- (iii) the Group has maintained proper books of account;
- (iv) the financial information included in the Chairman's report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- (v) as disclosed in note 18 to the consolidated financial statements, the Group purchased and sold shares during the year ended 31 December 2023;
- (vi) note 36 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- (vii) note 1 to the financial statements discloses that the Company is currently in the process of amending the statutory documents, to reflect the changes required due to the application of the UAE Federal law No. (32) of 2021;
- (viii) based on the information that has been made available to us, except for (vii), nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2023 any of the applicable provisions of the UAE Federal Law No. (32) of 2021, or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2023; and
- (ix) note 15 to the consolidated financial statements discloses social contributions made during the year ended 31 December 2023.



GRANT THORNTON UAE

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

30 March 2024

Finance House P.J.S.C
Consolidated financial statements

Consolidated statement of financial position
As at 31 December 2023

	Note	31 December 2023 AED'000	31 December 2022 AED'000 (restated)	1 January 2022 AED'000 (restated)
Assets				
Cash on hand	17	7,033	8,407	8,096
Due from banks	17	288,416	758,080	593,791
Investment securities	18	172,346	268,347	319,015
Loans and advances	19	1,875,670	2,001,148	2,082,265
Islamic financing and investing assets	20	14,140	22,636	30,305
Investment in equity accounted investees	21	82,214	82,613	86,881
Interest receivable and other assets	22	63,260	71,473	80,392
Insurance and reinsurance contract assets		107,332	112,607	65,793
Property, fixtures and equipment	23	117,464	105,669	99,260
Intangibles	24	6,705	6,705	6,705
Investment properties	25	30,942	4,100	3,500
Total assets		2,765,522	3,441,785	3,376,003
Liabilities and equity				
Liabilities				
Customers' deposits and margin accounts	26	1,562,689	2,060,674	1,716,385
Due to banks and other financial institutions	17	32,795	30,059	26,720
Short term borrowings	27.1	215,000	340,000	441,910
Medium-term loan	27.2	33,333	66,667	100,000
Insurance and reinsurance contract liabilities		173,026	200,538	143,453
Lease liabilities		-	537	1,105
Interest payable and other liabilities	28	73,625	58,919	183,492
Provision for employees' end of service benefits	29	13,128	14,371	14,328
Total liabilities		2,103,596	2,771,765	2,627,393

Finance House P.J.S.C
Consolidated financial statements

Consolidated statement of financial position (continued)
As at 31 December 2023

	Note	31 December 2023 AED'000	31 December 2022 AED'000 (restated)	1 January 2022 AED'000 (restated)
Equity				
Share capital	30	302,838	302,838	302,838
Treasury shares	31	(51,196)	(46,535)	(29,823)
Employees' share-based payment scheme	32	(1,750)	(1,750)	(1,750)
Statutory reserve	33	151,671	151,671	151,671
Fair value reserve		(56,061)	(56,968)	(21,800)
Accumulated losses		(18,844)	(38,149)	(25,196)
Tier 1 Sukuk	34	276,100	276,200	276,200
Tier 1 Bonds	34	15,000	15,000	15,000
Proposed directors' remuneration		3,598	2,048	2,251
		621,356	604,355	669,391
Non-controlling interests		40,570	65,665	79,219
Total equity		661,926	670,020	748,610
Total liabilities and equity		2,765,522	3,441,785	3,376,003
Commitments and contingent liabilities	35	404,935	509,478	600,387

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

These consolidated financial statements were authorized and approved for issue by the Board of Directors on 14 February 2024 and signed on their behalf by:



Mr. Mohammed Alqubaisi
Vice Chairman



Mr. T.K. Raman
Chief Executive Officer

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Finance House P.J.S.C
Consolidated financial statements

Consolidated statement of profit or loss
For the year end 31 December 2023

	Note	2023 AED'000	2022 AED'000 (restated)
Interest income and income from Islamic financing and investing assets	10	220,762	193,317
Interest expense and profit distributable to depositors	10	(82,964)	(55,069)
Net interest income and income from Islamic financing and investing assets	10	137,798	138,248
Fee and commission income	11	28,985	31,079
Fee and commission expenses	11	(11,036)	(12,768)
Net fee and commission income	11	17,949	18,311
Insurance services result before reinsurance contracts issued		(21,167)	(57,487)
Net (expenses)/income from reinsurance contracts held		(15,133)	32,212
Insurance finance expense for insurance contracts issued		(7,142)	(1,138)
Reinsurance finance income for reinsurance contracts held		3,090	516
Net insurance loss		(40,352)	(25,987)
Net investment income	12	5,197	12,363
Allowance for expected credit losses on loans and advances	19	(23,668)	(44,009)
Reversal of allowance for expected credit losses on Islamic financing and investing assets	20	1,436	5,721
Other operating income, net	13	57,754	24,444
Net operating income		156,114	129,091
Salaries and employees related expenses	14	(91,001)	(86,254)
Depreciation of property, fixtures and equipment		(6,568)	(7,789)
Interest on lease liabilities		(3)	(5)
General and administrative expenses	15	(43,334)	(42,101)
Operating profit/(loss) for the year		15,208	(7,058)
Share of losses of equity accounted investees	21	(399)	(4,268)
Profit/(loss) for the year		14,809	(11,326)

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Finance House P.J.S.C
Consolidated financial statements

Consolidated statement of comprehensive income
For the year end 31 December 2023

	Note	2023 AED'000	2022 AED'000 (restated)
Profit/(loss) for the year		14,809	(11,326)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Equity investments at FVOCI – net change in fair value		(3,013)	(19,073)
Gain/(loss) on disposal of financial assets at fair value through other comprehensive income		2,706	(11,083)
Other comprehensive loss for the year		(307)	(30,156)
Total comprehensive income/(loss) for the year		14,502	(41,482)
Profit attributable to:			
Equity holders of the parent		35,984	1,916
Non-controlling interests		(21,175)	(13,242)
		14,809	(11,326)
Total comprehensive income attributable to:			
Equity holders of the parent		39,597	(27,928)
Non-controlling interests		(25,095)	(13,554)
		14,502	(41,482)
Basic and diluted earning/(loss) per share attributable to ordinary shares (AED)	16	0.06	(0.06)

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Finance House P.J.S.C
Consolidated financial statements

Consolidated statement of changes in equity
For the year ended 31 December 2023

	Share capital	Treasury shares	Employees' share-based payment scheme	Statutory reserve	Fair value reserve	Retained earnings	Proposed directors' remuneration	Attributable to			Non controlling interest	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	Tier 1 Sukuk	Tier 1 Bonds	shareholders of the parent	AED'000	AED'000
Balance at 1 January 2022	302,838	(29,823)	(1,750)	151,671	(21,800)	2,379	2,251	276,200	15,000	696,966	104,700	801,666
Opening restatement adjustment (Note 39)	-	-	-	-	-	(27,725)	-	-	-	(27,725)	(25,660)	(53,385)
Adjustment on initial application of IFRS 17	-	-	-	-	-	150	-	-	-	150	179	329
Restated balance at 1 January 2022	302,838	(29,823)	(1,750)	151,671	(21,800)	(25,196)	2,251	276,200	15,000	669,391	79,219	748,610
Gain on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	(5,324)	5,324	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	1,916	-	-	-	1,916	(13,242)	(11,326)
Net changes in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(29,844)	-	-	-	-	(29,844)	(312)	(30,156)
Total comprehensive income for the year	-	-	-	-	(35,168)	7,240	-	-	-	(27,928)	(13,554)	(41,482)
Directors' remuneration paid	-	-	-	-	-	-	(2,251)	-	-	(2,251)	-	(2,251)
Proposed director's remuneration	-	-	-	-	-	(2,048)	2,048	-	-	-	-	-
Purchase of treasury shares	-	(16,712)	-	-	-	-	-	-	-	(16,712)	-	(16,712)
Tier 1 bonds coupon paid	-	-	-	-	-	(1,238)	-	-	-	(1,238)	-	(1,238)
Tier 1 sukuk coupon paid	-	-	-	-	-	(16,907)	-	-	-	(16,907)	-	(16,907)
Balance at 31 December 2022 - restated	302,838	(46,535)	(1,750)	151,671	(56,968)	(38,149)	2,048	276,200	15,000	604,355	65,665	670,020

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Finance House P.J.S.C
Consolidated financial statements

Consolidated statement of changes in equity (continued)
For the year ended 31 December 2023

	Employees' share-based payment scheme					Attributable to						
	Share capital	Treasury shares	share-based payment scheme	Statutory reserve	Fair value reserve	Retained earnings	Proposed directors' remuneration	Tier 1 Sukuk	Tier 1 Bonds	shareholders of the parent	Non controlling interest	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2023 – as reported	302,838	(46,535)	(1,750)	151,671	(56,968)	4,072	2,048	276,200	15,000	646,576	108,611	755,187
Opening restatement adjustment (Note 39)	-	-	-	-	-	(37,835)	-	-	-	(37,835)	(40,810)	(78,645)
Adjustment on initial application of IFRS 17	-	-	-	-	-	(4,386)	-	-	-	(4,386)	(2,136)	(6,522)
Restated balance at 1 January 2023	302,838	(46,535)	(1,750)	151,671	(56,968)	(38,149)	2,048	276,200	15,000	604,355	65,665	670,020
Gain on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	(2,706)	2,706	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	35,984	-	-	-	35,984	(21,175)	14,809
Net changes in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	3,613	-	-	-	-	3,613	(3,920)	(307)
Total comprehensive income for the year	-	-	-	-	907	38,690	-	-	-	39,597	(25,095)	14,502
Directors' remuneration paid	-	-	-	-	-	-	(2,048)	-	-	(2,048)	-	(2,048)
Proposed director's remuneration	-	-	-	-	-	(3,598)	3,598	-	-	-	-	-
Purchase of treasury shares	-	(4,661)	-	-	-	-	-	-	-	(4,661)	-	(4,661)
Repurchase of Tier 1 Sukuk	-	-	-	-	-	-	-	(100)	-	(100)	-	(100)
Tier 1 bonds coupon paid	-	-	-	-	-	1,238	-	-	-	1,238	-	1,238
Tier 1 sukuk coupon paid	-	-	-	-	-	(17,025)	-	-	-	(17,025)	-	(17,025)
Balance at 31 December 2023	302,838	(51,196)	(1,750)	151,671	(56,061)	(18,844)	3,598	276,100	15,000	621,356	40,570	661,926

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Finance House P.J.S.C
Consolidated financial statements

Consolidated statement of cash flows
For the year ended 31 December 2023

	2023 AED'000	2022 AED'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	14,809	(11,326)
Adjustments for:		
Depreciation of property, fixtures and equipment	6,568	7,789
Gain on fair valuation of investment in property	(700)	-
Change in fair value of investment property	(1,417)	(600)
Share of loss of equity accounted investees	399	4,268
Dividend income from investments	(6,915)	(8,919)
Loss/(profit) on disposal of investments carried at fair value through profit or loss	1,478	(7,226)
Net change in fair value of investments carried at fair value through profit or loss	240	3,821
Loss on disposal of investment carried at amortized cost	-	(39)
Net impairment loss on loans and advances	23,668	44,009
Impairment reversal on Islamic financing and investing assets	(1,436)	(5,721)
Net provision for employees' end of service benefits	1,986	2,386
	38,680	28,442
Changes in:		
Islamic financing and investing assets	9,932	13,390
Loans and advances	101,810	37,108
Interest receivable and other assets	8,212	(10,978)
Insurance receivables and contract assets	5,275	(38,509)
Customers' deposits and margin accounts	(497,985)	344,289
Interest payable and other liabilities	14,706	(94,497)
Lease liabilities	(537)	(568)
Insurance contract liabilities	(27,512)	39,967
Cash (used in)/generated from operating activities	(347,419)	318,644
Employees' end of service benefits paid	(3,229)	(2,343)
Dividend received	6,915	8,919
Directors' remuneration paid	(2,048)	(2,251)
Net cash (used in)/generated from operating activities	(345,781)	322,969
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments carried at fair value through other comprehensive income	(3,480)	(30,189)
Proceeds from sale of investments carried at fair value through other comprehensive income	94,707	48,000
Purchase of investments carried at fair value through profit or loss	(11,272)	(50,370)
Proceeds from sale of investments carried at fair value through profit or loss	47,414	54,628
Proceeds from redemption of fixed deposit	14,000	14,000
Proceeds from sale of investments carried at amortized cost	-	1,886
Purchase of investments carried at amortized cost	(44,916)	-
Purchase of investment property	(29,525)	-
Proceeds from disposal of investment property	4,800	-
Purchase of property, fixtures and equipment	(30,149)	(15,563)
Proceeds from disposal of property, fixtures and equipment	11,786	-
Net cash generated from investing activities	53,365	22,392

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Consolidated statement of cash flows (continued)
For the year ended 31 December 2023

	Note	2023 AED'000	2022 AED'000 (restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short-term borrowings		(275,000)	(156,160)
Repayment of medium-term loans		(33,334)	(33,333)
Proceeds from medium Term loan		150,000	54,250
Repurchase of Tier 1 Sukuk		(100)	-
Tier 1 SUKUK coupon paid		(17,025)	(16,907)
Tier 1 Bond coupon paid		(1,238)	(1,238)
Purchase of treasury shares		(4,661)	(16,712)
Net cash used in financing activities		(181,358)	(170,100)
Net (decrease)/increase in cash and cash equivalents		(473,774)	175,261
Cash and cash equivalents at 1 January		730,428	555,167
Cash and cash equivalents at 31 December	17	256,654	730,428

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

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Notes to the consolidated financial statements

For the year ended 31 December 2023

1 Legal status and principal activities

Finance House P.J.S.C (“the Company”) is a public joint stock company incorporated in Abu Dhabi, United Arab Emirates (UAE) in accordance with the provisions of the UAE. The Company was established on 13 March 2004 and commenced its operations on 18 July 2004.

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 consolidated 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 Decretal Federal Law No. 14 of 2018 regarding the Central Bank and Organization of Financial Institution and Activities and under authority of resolutions of the Board of Directors of the UAE Central Bank relating to Finance Companies. The Company’s management 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 head office of the Company is at P.O. Box 7878, Abu Dhabi, UAE.

The Company performs its activities through its head office in Abu Dhabi and its Abu Dhabi, Dubai, and Sharjah branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

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

On 24 October 2018, management of Islamic Finance House (“the Subsidiary”) submitted an adjustment plan for restructuring the subsidiary to the Central Bank of the UAE (CBUAE). The adjustment plan was approved by the Board of Directors on the 6 of February 2019 and by CBUAE on 10 October 2019. The purpose of the plan was to adjust the activities of the subsidiary to meet the requirements of the newly issued regulations for finance companies. On 12 October 2020, CBUAE licensed Finance House L.L.C. to conduct financing business specified in Article (10) of the Finance Companies Regulation. During the year, the Company transferred all operations related to financing license to Finance House L.L.C. and surrendered its financing company license to CBUAE.

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

Finance House P.J.S.C
Consolidated financial statements

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

2 Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

3 Material accounting policy information

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these consolidated financial statements. With the exception of IFRS 17 (Note 3(a)), the adoption of the below has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

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

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

3 Material accounting policy information (continued)

Amendment to standards and interpretations issued but not yet effective

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

Title	Effective for annual periods beginning on or after
Amendments to IFRS 16 Leases	1 January 2024
Amendments to IAS 1 Presentation of Financial Statements relating to Classification of Liabilities as Current or Non-Current	1 January 2024
Amendments to IAS 1 Presentation of Financial Statements relating to Non-current Liabilities with Covenants	1 January 2024

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

(a) IFRS 17 - Insurance Contracts

International Financial Reporting Standard (IFRS) 17, "Insurance Contracts" establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin.

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses.

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after 1 January 2023. The Group has restated comparative information applying the transitional provisions to IFRS 17. The nature of the changes in accounting policies can be summarized, as follows:

The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. This standard is effective for periods beginning on or after 1 January 2023.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Changes to classification and measurement

The adoption of IFRS 17 did not change the classification of the Group's insurance contracts. The Group was previously permitted under IFRS 4 to continue accounting using its previous accounting policies. However, IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued reinsurance contracts held by the Group.

Under IFRS 17, the Group's insurance contracts issued, and reinsurance contracts held are all eligible to be measured by applying the premium allocation approach (PAA). The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

The Group applies the PAA to simplify the measurement of all of its insurance and reinsurance contracts. When measuring liabilities for remaining coverage, the PAA is similar to the Group's previous accounting treatment. However, when measuring liabilities for outstanding claims, the Group now discounts the future cash flows and includes an explicit risk adjustment for non-financial risk.

Previously, all acquisition costs were recognised and presented as separate assets from the related insurance contracts ('deferred acquisition costs') until those costs were included in profit or loss and OCI. Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented in the carrying amount of the related portfolio of contracts and are derecognized once the related contracts have been recognised.

Income and expenses from reinsurance contracts other than insurance finance income and expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Group under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred acquisition expenses less amounts recognised in revenue for insurance services provided;
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of coverage are more than 12 months apart;
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision); and

Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not-reported (IBNR)) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Changes to classification and measurement (continued)

The Group capitalizes its directly attributable insurance acquisition cash flows. No separate asset is recognised for deferred acquisition costs. Instead, insurance acquisition cash flows are subsumed into the insurance liability for remaining coverage.

Changes to presentation and disclosure

For presentation in the consolidated statement of financial position, the Group aggregates insurance and reinsurance contracts issued and reinsurance contracts held, respectively and presents separately:

- Groups Of insurance and reinsurance contracts issued that are assets;
- Groups Of insurance and reinsurance contracts issued that are liabilities;
- Groups of reinsurance contracts held that are assets; and
- Groups Of reinsurance contracts held that are liabilities.

The groups referred to above are those established at initial recognition in accordance with the IFRS 17 requirements.

The line-item descriptions in consolidated statement of profit or loss and consolidated other comprehensive income have been changed significantly compared with previous year. Earlier, the Group reported the following line items:

- Gross premiums written
- Reinsurance share of premiums
- Reinsurance share of ceded business premiums
- Net premiums
- Net transfer to unearned premium reserve
- **Net premiums earned**
- Commission earned
- Commission paid
- **Gross underwriting income**
- Gross claims paid
- Changes in technical reserves
- Reinsurance share of insurance claims and loss adjustments
- **Net claims incurred**

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Allocation of reinsurance premiums
- Amounts recoverable from reinsurance for incurred claims
- Insurance finance income or expenses
- Income or expenses from reinsurance contracts held

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Changes to presentation and disclosure (continued)

The Group provides qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements and changes in those judgements, when applying the standard.

Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, at 1 January 2022 the Group:

- Identified, recognised and measured each portfolio of insurance and reinsurance contracts as if IFRS 17 had always been applied;
- identified, recognised and measured any assets for insurance acquisition cash flows as if IFRS 17 had always been applied;
- Derecognised previously reported balances that would not have existed if IFRS 17 had always been applied. These included some deferred acquisition costs for insurance contracts, intangible assets related to insurance contracts (previously referred to as 'value of business acquired'), insurance receivables and payables, and provisions for levies that are attributable to existing insurance contracts. Under IFRS 17, they are included in the measurement of the insurance contracts; and
- Recognised any resulting net difference in equity.

The Group has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each consolidated financial information line item and Earning Per Share. The effects of adopting IFRS 17 on the consolidated financial statements at 1 January 2022 are presented in the consolidated statement of changes in equity.

Insurance and reinsurance contracts classification

The Group issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Insurance and reinsurance contracts accounting treatment

Separating components from insurance and reinsurance contracts

The Group assesses its insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Group applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Group's products do not include any distinct components that require separation.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Insurance and reinsurance contracts accounting treatment (continued)
Separating components from insurance and reinsurance contracts (continued)

Some reinsurance contracts issued contain profit commission arrangements. Under these arrangements, there is a minimum guaranteed amount that the policyholder will always receive — either in the form of profit commission, or as claims, or another contractual payment irrespective of the insured event happening. The minimum guaranteed amounts have been assessed to be highly interrelated with the insurance component of the reinsurance contracts and are, therefore, non-distinct investment components which are not accounted for separately. However, receipts and payments of these investment components are recognised outside of profit or loss.

Level of aggregation

IFRS 17 requires a Group to determine the level of for applying its requirements. The Group previously applied aggregation levels under IFRS 4, which were significantly higher than the level of required by IFRS 17. The level of aggregation for the Group is determined firstly by dividing the business written into portfolios. Portfolios comprise group of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. This means that, for determining the level of aggregation, the Group identifies a contract as the smallest 'unit', i.e., the lowest common denominator. However, the Group makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand- alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). IFRS 17 also notes that no group for level of aggregation purposes may contain contracts issued more than one year apart.

The Group has elected to group together those contracts that would fall into different groups only because law, regulation or internal policies specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics. The Group applied a full retrospective approach for transition to IFRS 17. The portfolios are further divided into groups of contracts by quarter of issue and profitability for recognition and measurement purposes. Hence, within each quarter of issue, portfolios of contracts are divided into three groups, as follows:

- A group of contracts that are onerous at initial recognition (If any)
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (If any)
- A group of the remaining contracts in the portfolio (if any)

The profitability of groups of contracts is assessed by profitability committee that take into consideration existing and new business. The Group assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Group assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Level of aggregation (continued)

The Group has a Profitability Assessment Committee that meets at regular intervals to determine the profitability groupings of each portfolio of contracts. committee acts as a forum to collect input from the pricing and underwriting functions and assess the relevant facts and circumstances which indicate that groups of contracts are onerous at initial recognition.

Below are some of the relevant facts and circumstances that the Group considers:

- Evaluation Of expected combines ratios;
- Pricing information;
- Results of similar contracts it has recognized; and
- Environment factors, e.g., a change in market experience or

The Group divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

Recognition

The Group recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date;
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous the Group recognises a group of reinsurance contracts held;
- If the reinsurance contracts provide proportionate coverage at the later of the beginning of the coverage period of the group, or the initial recognition of any underlying contract; and
- In all other cases, from the beginning of the coverage period of the group the Group adds new contracts to the group when they are issued or initiated.

Contract boundary

The Group includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. For insurance contract, cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with services. For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Measurement - Premium Allocation Approach

Insurance contracts — initial measurement

The Group applies the premium allocation approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including coverage arising from all premiums within the contract boundary. or
- For contracts longer than one year, the Group has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Group has also considered qualitative factors such as the nature of the risk and the types of its lines of business.

The Group does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for the remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with:

- The extent of future cash flows related to any derivatives embedded in the contracts.
- The length of the coverage period of the group of contracts.

For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows at that date, with the exception of contracts which are one year or less where this is expensed, plus or minus any amount arising from the derecognition at that date of the asset or liability recognised for insurance acquisition cash flows that the Group pays or receives before the group of insurance contracts is recognised. There is no allowance for time value of money as the premiums are mostly received within one year of the coverage period.

The Group measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues, however, adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Insurance contracts — subsequent measurement

The Group measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of period:

- Plus premiums received in the period;
- Minus capitalised insurance acquisition cash flows;
- Plus any amounts relating to the amortisation of the acquisition cash flows recognised as an expense in the reporting period for the group;
- Plus any adjustment to the financing component, where applicable;
- Minus the amount recognised as insurance revenue for the coverage period; and
- Minus any investment component paid or transferred to the liability for incurred claims.

The Group estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the entity and include an explicit adjustment for non-financial risk (the risk adjustment). The Group does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

Insurance acquisition cash flows are allocated on a straight-line basis to profit or loss.

Reinsurance contracts

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held. Insurance contracts — modification and derecognition

The Group derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired);
Or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Group derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Group recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Presentation

The Group has presented separately, in the statement of financial position, the carrying amount of groups of insurance contracts issued that are assets, groups of insurance contracts issued that are liabilities, reinsurance contracts held that are assets and groups of reinsurance contracts held that are liabilities.

Any assets or liabilities for insurance acquisition cash flows recognised before the corresponding insurance contracts are included in the carrying amount of the related groups of insurance contracts issued.

The Group disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Group does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion.

The Group separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Group allocates the expected premium receipts to each period of coverage on the basis of the passage of time; but if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected of incurred insurance service expenses.

The Group changes the basis of allocation between the two methods above as necessary, if facts and stances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented all revenue has been recognised on the basis of the passage of time.

Loss components

The Group assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous; the Group recognize a loss component as the excess of the fulfillment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

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

3 Material accounting policy information (continued)

(a) IFRS 17 - Insurance Contracts (continued)

Insurance and reinsurance contracts accounting treatment (continued)

Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Group presents insurance finance income or expenses in profit or loss only.

Net income or expense from reinsurance contracts held

The Group presents separately on the face of the statement of profit or loss and other comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. Group treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the consolidated statement of profit or loss and other comprehensive income.

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Consolidated financial statements

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

3 Material accounting policy information (continued)

(a) Key Accounting Policy choices

Particulars	IFRS 17 Options	Adoption approach
Policy acquisition cost	Where the coverage period of each contract in the group at initial recognition is no more than one year, IFRS 17 allows an accounting policy choice of either expensing the insurance acquisition cash flows when incurred or amortizing them over the contract's coverage period.	The Group amortized the insurance acquisition cost for all contracts. The Group allocates the acquisition cost to groups of insurance contracts issued or expected to be issued using a systematic and rational basis.
Liability for Remaining Coverage ("LRC") adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LRC, or where the time between providing each part of the services and the related premium due date is no more than a year, the Group is not required to make an adjustment for accretion of interest on the LRC.	For PAA model, Group has elected not to adjust the Liability for Remaining Coverage for discounting, as it expects the time between providing each part of the coverage and the related premium due date to be one year or less
Liability for Incurred Claims ("LIC") adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	Group will discount all future incurred claim cashflows.
Insurance finance income and expenses	IFRS 17 provides an accounting policy choice to recognize the impact of changes in discount rates and other financial variables in profit or loss or in OCI. The accounting policy choice (the PL or OCI option) is applied on a portfolio basis.	Entire insurance finance income or expense for the period will be presented in the statement of profit or loss.
Disaggregation of risk adjustment	An insurer is not required to include the entire change in the risk adjustment for non-financial risk in the insurance service result. Instead, it can choose to split the amount between the insurance service resultant insurance finance income or expenses.	The entire risk adjustment will be presented in insurance service result by the Group.
Presentation in the statement of income – Reinsurance	The Group may present the income or expenses from a group of reinsurance contracts held, other than insurance finance income or expenses, as a single amount; or the Group may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount	Reinsurance cession and recoveries will be presented separately in the statement of profit or loss by the Group.
Adjustments of estimate would take place on an annual basis	The Group shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds.	Adjustments of estimate would take place on an annual basis.

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Consolidated financial statements

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

3 Material accounting policy information (continued)
(b) Business combinations

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

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

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

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

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

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

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

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

3 Material accounting policy information (continued)

(c) Subsidiaries

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

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

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

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

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

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

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

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

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

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

3 Material accounting policy information (continued)

(c) Subsidiaries (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

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

(d) Investment in equity accounted investees

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

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

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

(e) Investment in associate

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

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

3 Material accounting policy information (continued)

(f) Equity method

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

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

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

(g) 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 Group in the management of its short-term commitments. Cash and cash equivalents are non-derivative financial assets carried at amortized cost in the consolidated statement of financial position.

(h) Financial assets and liabilities

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

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

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

3 Material accounting policy information (continued)

(h) Financial assets and liabilities (continued)

Classification and subsequent measurement (continued)

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

- it is held within a business model whose objectives is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:
 - it is held within a business model whose objectives is achieved by both collecting contractual cash flows and selling financial assets; and
 - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets – Business model assessment

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

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

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Consolidated financial statements

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

3 Material accounting policy information (continued)

(h) Financial assets and liabilities (continued)

Financial assets – Business model assessment (continued)

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

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

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

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

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

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

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

Reclassification

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

Derecognition

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

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

3 Material accounting policy information (continued)

(h) 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 Group is recognized as a separate asset or liability.

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

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

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

Financial liabilities

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

Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

3 Material accounting policy information (continued)

(h) Financial assets and liabilities (continued)

Modification of financial assets and financial liabilities (continued)

Financial assets (continued)

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

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Interest rate benchmark reform

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

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

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

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Consolidated financial statements

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

3 Material accounting policy information (continued)

(h) Financial assets and liabilities (continued)

Impairment of financial assets

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

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

Central Bank of UAE ("CBUAE") provision requirements

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

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

(i) Financial guarantee contracts and loan commitments

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

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

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

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

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Consolidated financial statements

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

3 Material accounting policy information (continued)

(j) Islamic financing and investing assets

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

Murabaha

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

Wakala

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

Ijara

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

(k) Property, fixtures and equipment

Recognition and measurement

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

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

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

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

Finance House P.J.S.C
Consolidated financial statements

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

3 Material accounting policy information (continued)

(k) Property, fixtures and equipment (continued)

Subsequent costs

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

Depreciation

Depreciation is calculated to write off the cost of items of property, fixtures 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, fixtures and equipment for the current and comparative periods are as follows:

	Years
Building	30
Furniture, fixtures and equipment	4-5
Motor vehicles	4
Computer hardware and software	3-4

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

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

(l) Intangible assets

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

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

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

3 Material accounting policy information (continued)

(l) Intangible assets (continued)

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

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

(m) Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

3 Material accounting policy information (continued)

(n) Investment properties

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

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

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

(o) Repurchase agreements

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

(p) Operating segment reporting

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

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

(q) Provisions

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

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

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

3 Material accounting policy information (continued)

(r) Employees' end of service benefits

Defined contribution plan

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

Defined benefit plan

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

Share-based payments

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

Share capital, other equity and reserves

Other equity instruments

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

(s) Foreign currencies

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

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

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

3 Material accounting policy information (continued)

(t) Offsetting

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

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

(u) Fair values measurements

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

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

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

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

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

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

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

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

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

3 Material accounting policy information (continued)

(v) Fair values measurements (continued)

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

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

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

(v) Recognition of income and expenses

i. Interest

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

ii. Fee and commission

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

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

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

3 Material accounting policy information (continued)

(x) Recognition of income and expenses (continued)

iii. Murabaha

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

iv. Ijara

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

v. Wakala

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

vi. Income on balances with financial institutions

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

vii. Dividend income

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

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

4 Significant accounting judgements and estimates

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

(a) Judgments

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

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

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

ii. Classification of properties

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

(b) Estimates and assumptions

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

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

4. Significant accounting judgements and estimates (continued)

(b) Estimates and assumptions (continued)

i. Fair value of investment properties

The Group engaged an independent valuation specialist to assess fair value for its investment properties using a valuation methodology based on the 'comparable market value method'. The key assumptions used to determine the fair value of investment properties and sensitivity analyses are disclosed in Notes 6 and 25.

ii. Fair value of unquoted investments

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

iii. Measurement of the expected credit loss allowance

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

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

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

iv. Insurance and reinsurance contracts

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

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

4. Significant accounting judgements and estimates (continued)

(c) Estimates and assumptions (continued)

v. Liability for remaining coverage

For insurance acquisition cash flows, the Group is eligible and chooses to capitalise all insurance acquisition cashflows upon payments.

The effect of recognising insurance acquisition cash flows as an expense on initial recognition of group of insurance contracts are to increase the liability for remaining coverage on initial recognition and reduce the likelihood of any subsequent onerous contract loss. There would be an increased charge to profit or loss on initial recognition, due to expensing acquisition cash flows, offset by an increase in profit released over the coverage period. For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfillment cash flows.

vi. Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

vii. Discount rates

The Group use bottom-up approach to derive the discount rate. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an illiquidity premium). The risk-free rate was derived using swap rates available in the market denominated in the same currency as the product being measured. When swap rates are not available, highly liquid sovereign bonds with a credit rating were used. Management uses judgment to assess liquidity characteristics of the liability cash flows.

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Notes to the consolidated financial statements (continued)
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Discount rates applied for discounting of future cash flows are listed below:

Discount rates applied for discounting of future cash flows are listed below:

	1 year		3 years		5 years		10 years		10 years	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Insurance contracts issued										
AED	6.66	6.02	5.72	5.66	5.35	5.46	5.02	5.19	5.36	5.10
Reinsurance contracts issued										
AED	6.66	6.02	5.72	5.66	5.35	5.46	5.02	5.19	5.36	5.10

viii. Risk adjustment for non-financial risk

The Group uses a Solvency II (Value at risk) type approach to determine its risk adjustment for non-financial risk. Each portfolio is matched with the most representative Solvency II LOB and an assumption is made that the prescribed standard deviation of premiums risk and reserves risk for a given Solvency II LOB is representative of the standard deviation of the portfolio LRC and LIC standard deviation respectively. Further, the Group assumes that the LRC and LIC each have a Lognormal distribution with the LIC mean matching the sum of the IBNR, OS and ULAE while the LRC mean matches the UPR of a given portfolio. The risk adjustment for non-financial risk is the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. The Group has estimated the risk adjustment using a confidence level (probability of sufficiency) approach for different lines in the range of 60-75 percentile. That is, the Group has assessed its indifference to uncertainty for product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 60-75 percentile confidence level less the mean of an estimated probability distribution of the future cash flows.

- i. The Group has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

5 Financial risk management

(a) Introduction

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

i. Risk management structure

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

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

5 Financial risk management (continued)

(a) Introduction (continued)

Board of Directors

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

Audit Committee

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

Asset Liability Committee (ALCO)

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

Investment and Credit Committee (ICC)

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

i. Risk management structure (continued)

Board Risk Management Committee (BRMC)

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

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

Risk Management Department (RMD)

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

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

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

5 Financial risk management (continued)

(a) Introduction (continued)

Treasury

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

Internal Audit

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

ii. Risk measurement and reporting systems

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RMD, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place.

Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RMD receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

iii. Risk mitigation

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

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

iv. Risk concentration

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

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

Details of the composition of the loans, advances and Islamic financing and investing portfolio are provided in notes 20 and 21. Information on credit risk is provided in note 5(b).

v. Risk assessment

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

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

(a) Credit risk

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

5 Financial risk management (continued)

(a) Credit risk (continued)

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

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

i. Settlement risk

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

For certain types of transaction, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their

Finance House P.J.S.C

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2023

contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Group Risk.

ii. Write-off policy

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

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2023 was AED 252 thousand (2022: AED 3,082 thousand). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

iii. Modification of financial assets

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

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

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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

iii Modification of financial assets (continued)

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

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

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

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

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

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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

iv. Credit risk measurement

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

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

Credit risk grading

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

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

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

Retail

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

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

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

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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

iv. Credit risk measurement (continued)

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.

v. Expected credit loss measurement

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

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

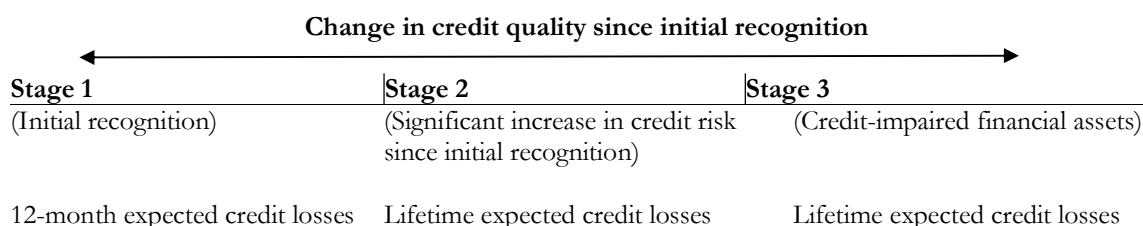
Notes to the consolidated financial statements (continued)
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5 Financial risk management (continued)

(b) Credit risk (continued)

v. Expected credit loss measurement (continued)

The following diagram summarizes the impairment requirements under IFRS 9:



Significant increase in credit risk (SICR)

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

Quantitative criteria

Corporate loans:

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

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

Retail:

For retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury:

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

Qualitative criteria:

Corporate loans:

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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

v. Expected credit loss measurement (continued)

Backstop:

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

vi. Definition of default and credit-impaired assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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. 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 Group's Credit risk team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure plausible events are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2023 and 31 December 2023, for all portfolios the Group concluded that three scenarios representing the Downturn, Normal and Growth cases have been determined appropriate for capturing forward looking component in ECL. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The weightings assigned to each macro-economic scenario as at 31 December 2023, is as per the below table:

Economic Scenarios		
Downturn	Normal	Growth
33.33%	33.33%	33.33%

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

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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

ix. Credit risk exposure

Credit quality analysis

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

	2023			
	ECL staging			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
Grading 1	784,932	36,311	-	821,243
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
	1,442,021	390,479	510,625	2,343,125
Less: allowances for expected credit losses	(23,858)	(63,972)	(379,625)	(467,455)
Carrying amount	1,418,163	326,507	131,000	1,875,670
Islamic financing and investing assets				
Grading 1	3,144	-	-	3,144
Grading 2	612	1	-	613
Grading 3	-	3	7,889	7,892
Grading 4	-	-	380	380
Grading 5	-	-	61,291	61,291
	3,756	4	69,560	73,320
Less: allowances for expected credit losses	(162)	(1)	(59,017)	(59,180)
Carrying amount	3,594	3	10,543	14,140

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Notes to the consolidated financial statements (continued)
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5 Financial risk management (continued)

(b) Credit risk (continued)

ix. Credit risk exposure (continued)

Credit quality analysis (continued)

	2022			
	ECL staging			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	Total
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
Grading 1	868,600	42,796	-	911,396
Grading 2	677,802	328,819	-	1,006,621
Grading 3	-	1,404	116,256	117,660
Grading 4	-	-	82,384	82,384
Grading 5	-	-	327,126	327,126
	1,546,402	373,019	525,766	2,445,187
Less: allowances for expected credit losses	(22,617)	(49,365)	(372,057)	(444,039)
Carrying amount	1,523,785	323,654	153,709	2,001,148
Islamic financing and investing assets				
Grading 1	5,185	56	-	5,241
Grading 2	5,579	2,949	-	8,528
Grading 3	-	29	4,970	4,999
Grading 4	-	-	998	998
Grading 5	-	-	63,486	63,486
	10,764	3,034	69,454	83,252
Less: allowances for expected credit losses	(193)	(101)	(60,322)	(60,616)
Carrying amount	10,571	2,933	9,132	22,636

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

5 Financial risk management (continued)

(b) Credit risk (continued)

ix. Credit risk exposure (continued)

Credit quality analysis (continued)

	2023			
	ECL staging			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
	AED'000	AED'000	AED'000	Total AED'000
Credit risk exposures relating to off-balance sheet items are as follows				
Letters of credit	1,342	-	-	1,342
Guarantees	388,557	9,842	945	399,344
Less: allowances for expected credit losses	(4,390)	(98)	(9)	(4,497)
Carrying amount	385,509	9,744	936	396,189
Credit risk exposures relating to on-balance sheet assets				
Cash and balances with the UAE Central Bank	220,670	-	-	220,670
Due from banks at investment grade	74,779	-	-	74,779
Financial assets measured at amortised cost at investment grade	44,916	-	-	44,916
	340,365	-	-	340,365

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

5 Financial risk management (continued)

(b) Credit risk (continued)

ix. Credit risk exposure (continued)

Credit quality analysis (continued)

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

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

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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

ix. Credit risk exposure (continued)

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

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

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

	Loans and advances and investment products	
	2023	2022
	AED'000	AED'000
Against individually impaired loans and advances:		
Property	49,477	70,354
Equities	64	70
Cash	8,546	5,628
Others	29,788	19,344
Total against Individually impaired	87,875	95,396
Against loans and advances not impaired:		
Property	521,087	675,279
Equities	174,362	214,366
Cash	231,527	259,774
Others	13,786	2,479
Total against not impaired	940,762	1,151,898

x. Loss allowance

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized during the year;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;

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

5 Financial risk management (continued)

(b) Credit risk (continued)

x. Loss allowance (continued)

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

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

	2023			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Loss allowance as at 1 January	22,617	49,365	372,057	444,039
Transfers				
Transfer from Stage 1 to Stage 2	(2,610)	2,610	-	-
Transfer from Stage 1 to Stage 3	(250)	-	250	-
Transfer from Stage 2 to Stage 1	917	(917)	-	-
Transfer from Stage 2 to Stage 3	-	(871)	871	-
Transfer from Stage 3 to Stage 1	1,132	-	(1,132)	-
Transfer from Stage 3 to Stage 2	-	3,082	(3,082)	-
New financial assets originated	3,900	12,436	21,348	37,684
Net remeasurement of loss allowance				
Reversal of no longer required impairment charges	(1,848)	(1,733)	(10,687)	(14,268)
Changes in PDs/LGDs/EADs				
Loss allowance as at 31 December 2023	23,858	63,972	379,625	467,455
Islamic financing and investing assets				
Loss allowance as at 1 January	193	100	60,323	60,616
Transfers				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
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

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

5 Financial risk management (continued)

(b) Credit risk (continued)

x. Loss allowance (continued)

	2022			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Loss allowance as at 1 January	20,387	28,562	362,602	411,551
Transfers				
Transfer from Stage 1 to Stage 2	(225)	225	-	-
Transfer from Stage 1 to Stage 3	(4,368)	-	4,368	-
Transfer from Stage 2 to Stage 1	1,616	(1,616)	-	-
Transfer from Stage 2 to Stage 3	-	(4,837)	4,837	-
Transfer from Stage 3 to Stage 1	820	-	(820)	-
Transfer from Stage 3 to Stage 2	-	27,367	(27,367)	-
New financial assets originated	2,551	2,408	-	4,959
Net remeasurement of loss allowance	5,083	809	23,445	29,337
Reversal of no longer required impairment charges	(3,247)	(3,553)	(3,316)	(10,116)
Changes in PDs/LGDs/EADs	-	-	8,308	8,308
Loss allowance as at 31 December 2022	22,617	49,365	372,057	444,039
Islamic financing and investing assets				
Loss allowance as at 1 January	397	227	62,335	62,959
Transfers	-	-	-	-
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(34)	34	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	-	-	-	-
Net remeasurement of loss allowance	32	7	1,070	1,109
Reversal of no longer required impairment charges	(236)	(100)	(3,116)	(3,452)
Loss allowance as at 31 December 2022	193	100	60,323	60,616

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Notes to the consolidated financial statements (continued)
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5 Financial risk management (continued)

(b) Credit risk (continued)

xi. Gross carrying amount

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

	2023			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Gross carrying amount as at 1 January 2023	1,546,402	373,019	525,766	2,445,187
Transfers				
Transfer from Stage 1 to Stage 2	(44,170)	44,170	-	-
Transfer from Stage 1 to Stage 3	(6,030)	-	6,030	-
Transfer from Stage 2 to Stage 1	4,323	(4,323)	-	-
Transfer from Stage 2 to Stage 3	-	(3,185)	3,185	-
Transfer from Stage 3 to Stage 1	2,262	-	(2,262)	-
Transfer from Stage 3 to Stage 2	-	4,068	(4,068)	-
New financial assets originated	152,226	15,101	3,097	170,424
Repayments during the year	(212,992)	(38,371)	(20,871)	(272,234)
Reversal of no longer required impairment charges	-	-	(252)	(252)
Gross carrying amount as at 31 December 2023	1,442,021	390,479	510,625	2,343,125
Islamic financing and investing activities				
Gross carrying amount as at 1 January 2023	10,764	3,034	69,454	83,252
Transfers				
Transfer from Stage 1 to Stage 2	(7)	7	-	-
Transfer from Stage 1 to Stage 3	(91)	-	91	-
Transfer from Stage 2 to Stage 1	21	(21)	-	-
Transfer from Stage 2 to Stage 3	-	(2,770)	2,770	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	10	(10)	-
New financial assets originated				
Repayments during the year	(6,933)	(256)	(2,743)	(9,932)
Gross carrying amount as at 31 December 2023	3,754	4	69,562	73,320

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

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 2022:

	2022			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Gross carrying amount as at 1 January 2022	1,526,597	413,711	553,508	2,493,816
Transfers				
Transfer from Stage 1 to Stage 2	(3,758)	3,758	-	-
Transfer from Stage 1 to Stage 3	(25,217)	-	25,217	-
Transfer from Stage 2 to Stage 3	-	(17,126)	17,126	-
Transfer from Stage 3 to Stage 2	-	52,808	(52,808)	-
Transfer from Stage 2 to Stage 1	7,959	(7,959)	-	-
New financial assets originated	214,753	8,567	-	223,320
Repayments during the year	(173,932)	(80,740)	(14,195)	(268,867)
Reversal of no longer required impairment charges	-	-	(3,082)	(3,082)
Gross carrying amount as at 31 December 2022	<u>1,546,402</u>	<u>373,019</u>	<u>525,766</u>	<u>2,445,187</u>
Islamic financing and investing activities				
Gross carrying amount as at 1 January 2022	16,314	4,662	72,288	93,264
Transfers	-	-	-	-
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(138)	138	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	(5,550)	(1,490)	(2,972)	(10,012)
Gross carrying amount as at 31 December 2022	<u>10,764</u>	<u>3,034</u>	<u>69,454</u>	<u>83,252</u>

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Notes to the consolidated financial statements (continued)
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5 Financial risk management (continued)

(b) Credit risk (continued)

xi. Gross carrying amount (continued)

	2023			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
	AED'000	AED'000	AED'000	Total AED'000
Cash and balances with the UAE Central Bank	220,670	-	-	220,670
Due from banks at investment grade	74,670	-	-	74,670
Financial assets measured at amortised cost at investment grade	44,916	-	-	44,916
	<u>340,356</u>	<u>-</u>	<u>-</u>	<u>340,356</u>

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

	2023			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
	AED'000	AED'000	AED'000	Total AED'000
Off-balance sheet items				
Gross carrying amount as at 1 January 2023	497,706	6,578	945	505,229
Transfers				
Transfer from Stage 1 to Stage 2	(4,770)	4,770	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
New financial assets originated	10,511	-	-	10,511
Repayments during the year	(64,428)	(1,506)	-	(65,934)
Other Movement	-	-	-	-
Gross carrying amount as at 31 December 2023	<u>439,019</u>	<u>9,842</u>	<u>945</u>	<u>449,806</u>

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Notes to the consolidated financial statements (continued)
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5 Financial risk management (continued)

(b) Credit risk (continued)

xi. Gross carrying amount (continued)

	2022			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Gross carrying amount as at 1 January 2022	1,526,597	413,711	553,508	2,493,816
Transfers				
Transfer from Stage 1 to Stage 2	(3,758)	3,758	-	-
Transfer from Stage 1 to Stage 3	(25,217)	-	25,217	-
Transfer from Stage 2 to Stage 3	-	(17,126)	17,126	-
Transfer from Stage 3 to Stage 2	-	52,808	(52,808)	-
Transfer from Stage 2 to Stage 1	7,959	(7,959)	-	-
New financial assets originated	214,753	8,567	-	223,320
Repayments during the year	(173,932)	(80,740)	(14,195)	(268,867)
Reversal of no longer required impairment charges	-	-	(3,082)	(3,082)
Gross carrying amount as at 31 December 2022	1,546,402	373,019	525,766	2,445,187
Islamic financing and investing activities				
Gross carrying amount as at 1 January 2022	16,314	4,662	72,288	93,264
Transfers	-	-	-	-
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(138)	138	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated	-	-	-	-
Repayments during the year	(5,550)	(1,490)	(2,972)	(10,012)
Gross carrying amount as at 31 December 2022	10,764	3,034	69,454	83,252

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

5 Financial risk management (continued)

(b) Credit risk (continued)

xi. Gross carrying amount (continued)

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

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

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

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Notes to the consolidated financial statements (continued)
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5 Financial risk management (continued)

(b) Credit risk (continued)

xii. Concentration of credit risk

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

Sector	Loans and advances		Islamic financing and investing activities	
	2023	2022	2023	2022
	AED'000	AED'000	AED'000	AED'000
Construction	128,579	151,899	6,722	6,836
Services	267,481	254,627	7,951	9,025
Trade	172,160	197,454	1,365	1,534
Real Estate	226,399	296,587	-	5,000
Manufacturing	109,161	96,274	-	-
Transport & Storage	45,243	37,766	-	-
Others	1,394,102	1,410,580	57,282	60,857
	<u>2,343,125</u>	<u>2,445,187</u>	<u>73,320</u>	<u>83,252</u>

(c) Liquidity risk

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

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5 Financial risk management (continued)

(c) Liquidity risk (continued)

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

The table below summarizes the maturity profile of the Group's assets and liabilities at 31 December 2023 based on contractual maturities.

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS					
Cash and balances with UAE Central Bank	220,670	-	-	-	220,670
Due from banks and financial institutions	74,779	-	-	-	74,779
Loans and advances	839,946	159,391	669,222	207,111	1,875,670
Islamic financing and investing assets	12,460	245	1,435	-	14,140
Investments, including associate	72,918	6,462	130,264	44,916	254,560
Insurance receivables and contract assets	85,559	11,198	10,575	-	107,332
Other assets	16,048	-	-	30,942	46,990
Financial assets	1,322,380	177,296	811,496	282,969	2,594,141
Non-financial assets	-	47,212	38,346	85,823	171,381
Total assets	1,322,380	224,508	849,842	368,792	2,765,522
LIABILITIES					
Due to banks	32,795	-	-	-	32,795
Customers' deposits and margin accounts	966,900	265,075	330,714	-	1,562,689
Short term borrowings and medium-term loans	-	223,333	25,000	-	248,333
Insurance and Reinsurance					
Contract Liabilities	173,026	-	-	-	173,026
Other liabilities	33,121	10,467	16,976	-	60,564
Financial liabilities	1,205,842	498,875	372,690	-	2,077,407
Non-financial liabilities	26,189	-	-	-	26,189
Total liabilities	1,232,031	498,875	372,690	-	2,103,596
Off balance sheet					
Contingent liabilities	372,853	23,910	3,923	-	400,686
Commitments	4,249	-	-	-	4,249
Total	377,102	23,910	3,923	-	404,935

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

5 Financial risk management (continued)

(c) Liquidity risk (continued)

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

The maturity profile of the Group's assets and liabilities at 31 December 2022 was as follows:

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS					
Cash and balances with U.A.E. Central Bank	370,699	-	-	-	370,699
Due from banks and financial institutions	395,788	-	-	-	395,788
Loans and advances	1,239,519	286,006	475,623	-	2,001,148
Islamic financing and investing assets	15,887	960	5,789	-	22,636
Investments, including associate	200,666	17,079	133,215	-	350,960
Insurance receivables and contract assets	90,834	11,198	10,575	-	112,607
Other assets	22,914	-	-	-	22,914
Financial assets	2,336,307	315,243	625,202	-	3,276,752
Non-financial assets	-	48,559	109,769	6,705	165,033
Total assets	2,336,307	363,802	734,971	6,705	3,441,785
LIABILITIES					
Due to banks	30,059	-	-	-	30,059
Customers' deposits and margin accounts	1,564,210	339,902	156,562	-	2,060,674
Short term borrowings and medium-term loans	116,667	231,667	58,333	-	406,667
Insurance and Reinsurance Contract Liabilities	200,538	-	-	-	200,538
Lease liabilities	-	537	-	-	537
Other liabilities	7,398	23,844	-	-	31,242
Financial liabilities	1,918,872	595,950	214,895	-	2,729,717
Non-financial liabilities	27,677	-	-	14,371	42,048
Total liabilities	1,946,549	595,950	214,895	14,371	2,771,765
Off balance sheet					
Contingent liabilities	458,406	32,181	14,642	-	505,229
Commitments	4,249	-	-	-	4,249
Total	462,655	32,181	14,642	-	509,478

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Notes to the consolidated financial statements (continued)
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5 Financial risk management (continued)

(c) Liquidity risk (continued)

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

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

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

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

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

Market risk arising from trading book

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

Market risk arising from banking book

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

Banking book includes all positions that are not held for trading such as but not limited to the Group's investments in instruments designated at FVTOCI, loans and advances, Islamic financing and investing assets 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.

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

5 Financial risk management (continued)

(d) Market risk (continued)

Risk identification and classification

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

Management of market risk

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

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

Risk measurement

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

Statistical risk measures

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

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

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

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

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

5 Financial risk management (continued)

(d) Market risk (continued)

Allocation of assets and liabilities

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

31 December 2023

		Market risk measure	
	Carrying amount AED'000	Trading portfolio AED'000	Non-trading portfolio AED'000
Assets subject to market risk			
Cash and balances with the Central Bank of the UAE	220,670	-	220,670
Due from banks and financial institutions	74,779	-	74,779
Loans and advances	1,875,670	-	1,875,670
Islamic financing and investing assets	14,140	-	14,140
Investments, including associate	254,560	20,972	233,588
Insurance receivables and contract assets	107,332	-	107,332
Interest receivable and other assets	63,260	-	63,260

Liabilities subject to market risk

Due to banks	32,795	-	32,795
Customers' deposits and margin accounts	1,562,689	-	1,562,689
Short term borrowings and medium-term loans	248,333	-	248,333
Insurance and Reinsurance Contract Liabilities	173,026	-	173,026
Interest payable and other liabilities	73,625	-	73,625

31 December 2022

		Market risk measure	
	Carrying amount AED'000	Trading portfolio AED'000	Non-trading portfolio AED'000
Assets subject to market risk			
Cash and balances with U.A.E. Central Bank	370,699	-	370,699
Due from banks and financial institutions	395,788	-	395,788
Loans and advances	2,001,148	-	2,001,148
Islamic financing and investing assets	22,636	-	22,636
Investments, including associate	350,961	58,832	292,129
Insurance receivables and contract assets	247,943	-	247,943
Interest receivable and other assets	107,360	-	107,360

Liabilities subject to market risk

Due to banks	30,059	-	30,059
Customers' deposits and margin accounts	2,060,674	-	2,060,674
Short term borrowings and medium-term loans	406,667	-	406,667
Insurance and Reinsurance Contract Liabilities	204,326	-	204,326
Lease liabilities	537	-	537
Interest payable and other liabilities	141,188	-	141,188

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

5 Financial risk management (continued)

(d) Market risk (continued)

i. Interest rate risk

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

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

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

	Equity	
	+1%	+1%
	Increase	Decrease
	AED'000	AED'000
31 December 2023		
Change of 1%		
Cash flow sensitivity	6,021	(6,254)
31 December 2022		
Change of 1%		
Cash flow sensitivity	737	(3,917)

ii. Currency risk

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

Foreign currency risk is limited since a significant proportion of the Group's transactions, monetary assets and liabilities are denominated in UAE 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 Group.

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

5 Financial risk management (continued)

(d) Market risk (continued)

iii. Price risk

Price risk is the risk that the fair values of equities and fixed income securities decrease as the result of changes in the levels of equity and fixed income indices and the value of individual instruments. The price risk exposure arises from the Group's investment portfolio.

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

	Equity	
	5% increase AED'000	5% decrease AED'000
31 December 2023		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	761	(761)
Dubai Financial Market Index	288	(288)
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	2,901	(2,901)
Dubai Financial Market Index	-	-
Unquoted investments	2,207	(2,207)
Cash flow sensitivity	6,157	(6,157)
31 December 2022		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	1,753	(1,753)
Dubai Financial Market Index	1,188	(1,188)
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	5,001	(5,001)
Dubai Financial Market Index	1,241	(1,241)
Unquoted investments	2,257	(2,257)
Cash flow sensitivity	11,440	(11,440)

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

5 Financial risk management (continued)

(e) Operational risk

(i) Overview

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

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

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

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

(ii) Three lines of defense

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

The three lines of defense are summarized below:

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

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

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

(iii) Operational risk identification and management

Typically, Operational Risk events includes the following:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated within the organization
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices and workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group

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

5 Financial risk management (continued)

(e) Operational risk (continued)

(iii) Operational risk identification and management (continued)

- Damage to physical assets: Risk of impact to the Group due to natural disasters including epidemic
- Clients, Products and Business Practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business Disruption and System failures: Risk of not planning and testing business continuity and disaster
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

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

(f) Insurance risk

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

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

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

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

Credit Risk related to insurance business

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

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

5 Financial risk management (continued)

(f) Insurance risk

Credit Risk related to insurance business (continued)

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

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

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

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

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

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

6 Fair value measurement

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

Notes to the consolidated financial statements (continued)
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6 Fair value measurement (continued)

Fair value hierarchy:

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

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

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

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

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

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

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6 Fair value measurement (continued)

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2023:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value				
Investment properties	-	-	30,942	30,942
At fair value through profit or loss				
Quoted equities	20,972	-	-	20,972
Quoted debt instruments	-	-	-	-
	<u>20,972</u>	<u>-</u>	<u>-</u>	<u>20,972</u>
At fair value through other comprehensive income				
Quoted equities	61,709	11,294	-	73,003
Quoted debt instruments	-	-	-	-
Unquoted equities	-	-	32,844	32,844
Investment in managed funds	-	611	-	611
	<u>61,709</u>	<u>11,905</u>	<u>32,844</u>	<u>106,458</u>
Assets for which fair value is disclosed				
Investment carried at amortized cost	44,916	-	-	44,916

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6 Fair value measurement (continued)

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value				
Investment properties	-	-	4,100	4,100
At fair value through profit or loss				
Quoted equities	58,831	-	-	58,831
Quoted debt instruments	-	-	-	-
	<u>58,831</u>	<u>-</u>	<u>-</u>	<u>58,831</u>
At fair value through other comprehensive income				
Quoted equities	129,779	-	-	129,779
Quoted debt instruments	33,864	-	-	33,864
Unquoted equities	-	11,294	33,849	45,143
Investment in managed funds	-	730	-	730
	<u>163,643</u>	<u>12,024</u>	<u>33,849</u>	<u>209,516</u>
Assets for which fair value is disclosed				
Investment carried at amortized cost	-	-	-	-

The fair value of investment carried at amortised cost as at 31 December 2023 is AED 30,089 thousand. For the long-term financial assets and liabilities, management does not expect to have a material difference between the carrying amount and the fair value.

Investments carried at fair value through profit or loss

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

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6 Fair value measurement (continued)

Investments carried at fair value through other comprehensive income

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

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

Type	Valuation technique	Significant unobservable inputs to valuation	Sensitivity of the input to fair value
Unquoted equities	EV/EBITDA, EV/Revenue, PE and P/B	Average of all four techniques	Increase / (decrease) in all four Multiples by 1 would result in increase / (decrease) in fair value by AED 338 thousand on average

PE Multiple is derived from comparable companies.

The effect of unobservable inputs on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumption could lead to different measurements of fair value. For fair value measurements in Level 2 & 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

	Effect on OCI	
	+1% Favourable AED'000	-1% (Unfavourable) AED'000
Cash flow sensitivity		
31 December 2023		
Unquoted equities at fair value through OCI	447	(447)
31 December 2022		
Unquoted equities at fair value through OCI	459	(459)

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6 Fair value measurement (continued)

Transfers between categories

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

	Unquoted equities at fair value through other comprehensive income	
	2023	2022
	AED'000	AED'000
Balance at 1 January	33,849	34,673
Loss for the year	(1,005)	(824)
Balance at 31 December	32,844	33,849

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6 Fair value measurement (continued)

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 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 balances	-	-	7,033
Due from banks	-	-	288,416
Investment securities	20,972	106,458	44,916
Loans and advances	-	-	1,875,670
Islamic financing and investing assets	-	-	14,140
Investment in associates	-	-	82,214
Interest receivable and other assets	-	-	63,260
Insurance receivables and contract assets	-	-	107,332
	20,972	106,458	2,482,981
Liabilities			
Customers' deposits and margin accounts	-	-	1,562,689
Due to banks and other financial institutions	-	-	32,795
Short term borrowings	-	-	215,000
Medium term loan	-	-	33,333
Insurance and Reinsurance Contract Liabilities	-	-	173,026
Interest payable and other liabilities	-	-	73,625
Provision for employees' end of service benefits	-	-	13,128
	-	-	2,103,596

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6 Fair value measurement (continued)

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

	Fair value through profit or loss AED'000	Fair value through other comprehensive income AED'000	Not measured at fair value AED'000
Assets			
Cash balances	-	-	8,407
Due from banks	-	-	758,080
Investment securities	58,831	209,516	-
Loans and advances	-	-	2,001,148
Islamic financing and investing assets	-	-	22,636
Investment in associates	-	-	82,613
Insurance receivables and contract assets	-	-	112,607
Interest receivable and other assets	-	-	71,473
	58,831	209,516	3,056,964
Liabilities			
Customers' deposits and margin accounts	-	-	2,060,674
Due to banks and other financial institutions	-	-	30,059
Short term borrowings	-	-	340,000
Medium term loan	-	-	66,667
Insurance and Reinsurance Contract Liabilities	-	-	200,538
Lease liabilities	-	-	537
Interest payable and other liabilities	-	-	58,919
Provision for employees' end of service benefits	-	-	14,371
	-	-	2,771,765

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7 Capital adequacy

Capital management

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

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

	2023 AED'000	2022 AED'000
Total capital base	743,215	820,758
Risk weighted assets:		
Statement of financial position items	2,541,261	3,000,855
Off statement financial position exposures	88,345	131,155
Total risk weighted assets	2,629,606	3,132,010
Total assets ratio (%)	28.26%	26.21%

8 Subsidiaries

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

Name of subsidiary	Country of incorporation	Ownership interest		Principal activity
		2023	2022	
Finance House L.L.C.	U.A.E.	100	100	Financing services
Insurance House P.J.S.C.	U.A.E.	45.61	45.61	Insurance
Finance House Securities Co L.L.C.	U.A.E.	70	70	Brokerage
F H Capital P.J.S.	U.A.E.	100	100	Investment and asset Management
F.H. Services	U.A.E.	100	100	Services

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9 Segment information

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

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

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

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Notes to the consolidated financial statements (continued)
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9 Segment information (continued)

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

31 December 2023	Commercial and retail financing AED'000	Investment AED'000	Insurance AED'000	Others AED'000	Unallocated AED'000	Total AED'000
Interest income and income from Islamic financing and investing assets	186,635	2,016	1,389	30,722	-	220,762
Interest expense and profit distributable to depositors	(38,673)	(20,132)	-	(24,159)	-	(82,964)
Net fee and commission income	13,199	-	-	4,750	-	17,949
Net income from investment	-	5,197	-	-	-	5,197
Insurance service result before reinsurance contracts issued	-	-	(21,167)	-	-	(21,167)
Net(expenses)/income from reinsurance contracts held	-	-	(15,133)	-	-	(15,133)
Insurance finance expense for insurance contracts issued	-	-	(7,142)	-	-	(7,142)
Reinsurance finance income for reinsurance contracts held	-	-	3,090	-	-	3,090
Net insurance income	-	-	(40,352)	-	-	(40,352)
Share of results of an associate	-	(399)	-	-	-	(399)
Other operating income, net	55,621	246	625	1,262	-	57,754
Total segment revenue	216,782	(13,072)	(38,338)	12,575	-	177,947
Depreciation of property, fixtures and equipment	(6,199)	(184)	-	(185)	-	(6,568)
Other expenses and charges	(49,612)	(5,421)	-	(9,905)	(69,400)	(134,338)
Total expenses and other charges	(55,811)	(5,605)	-	(10,090)	(69,400)	(140,906)
Profit/(loss) for the year before impairment	160,971	(18,677)	(38,338)	2,485	(69,400)	37,041
Net impairment charges on loans and advances	(23,668)	-	-	-	-	(23,668)
Net impairment reversal on Islamic financing and investing assets	-	-	-	1,436	-	1,436
Net profit/(loss) for the year	137,303	(18,677)	(38,338)	3,921	(69,400)	14,809
Segmental assets	1,875,670	297,424	217,215	375,213	-	2,765,522
Segmental liabilities	1,841,005	(115,790)	193,227	185,154	-	2,103,596
Additions to non-current assets during the year	-	969	806	13	28,361	30,149

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Notes to the consolidated financial statements (continued)
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9 Segment information (continued)

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

31 December 2022	Commercial and retail financing AED'000	Investment AED'000	Insurance AED'000	Others AED'000	Unallocated AED'000	Total AED'000
Interest income and income from Islamic financing and investing assets	157,201	8,444	1,801	25,871	-	193,317
Interest expense and profit distributable to depositors	(24,432)	(18,138)	-	(12,499)	-	(55,069)
Net fee and commission income	12,926	-	-	5,385	-	18,311
Net income from investment	-	12,363	-	-	-	12,363
Insurance service result before reinsurance contracts issued	-	-	(57,577)	-	-	(57,577)
Net(expenses)/income from reinsurance contracts held	-	-	32,122	-	-	32,122
Insurance finance expense for insurance contracts issued	-	-	(1,138)	-	-	(1,138)
Reinsurance finance income for reinsurance contracts held	-	-	516	-	-	516
Net insurance income	-	-	(25,987)	-	-	(25,987)
Share of results of an associate	-	(4,268)	-	-	-	(4,268)
Other operating income	23,229	920	-	295	-	24,444
Total segment revenue	168,924	(679)	(24,186)	19,052	-	163,111
Depreciation of property, fixtures and equipment	-	(194)	-	(181)	(7,414)	(7,789)
Other expenses and charges	(45,107)	(2,578)	-	(15,337)	(65,338)	(128,360)
Total expenses and other charges	(45,107)	(2,772)	-	(15,518)	(72,752)	(136,149)
Profit / (loss) for the year before impairment	123,817	(3,451)	(24,186)	3,534	(72,752)	26,962
Net impairment charges on loans and advances	(44,009)	-	-	-	-	(44,009)
Net impairment reversal on Islamic financing and investing assets	-	-	-	5,721	-	5,721
Net profit/(loss) for the year	79,808	(3,451)	(24,186)	9,255	(72,752)	(11,326)
Segmental assets	2,014,051	769,275	288,608	369,851	-	3,441,785
Segmental liabilities	1,999,104	488,060	222,567	62,034	-	2,771,765
Additions to non-current assets during the year	-	1,516	1,113	17	12,917	15,563

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9 Segment information (continued)

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

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

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

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

(b) Geographical information

The Group primarily operates in the UAE (country of domicile).

(c) Information about major customers

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

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

	2023 AED'000	2022 AED'000
Loans and advances	196,129	179,845
Income from Islamic financing and investing assets	1,689	3,791
Due from banks	20,986	7,479
Income from perpetual investments	668	848
Other	1,290	1,354
Interest income and income from Islamic financing and investing assets	220,762	193,317
Customers' deposits and margin accounts	(38,673)	(24,432)
Due to banks and other financial institutions	(35,641)	(30,120)
Profit distributable to depositors	(8,650)	(517)
Interest expense and profit distributable to depositors	(82,964)	(55,069)
Net interest income and income from Islamic financing and investing assets	137,798	138,248

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

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11 Net fee and commission income

	2023 AED'000	2022 AED'000
Fee and commission income from		
Credit cards related fees	5,056	6,896
Corporate finance fees	8,182	10,465
Letters of credit and letters of guarantees	2,745	4,192
Other commission income	13,002	9,526
	<u>28,985</u>	<u>31,079</u>
Fee and commission expense on		
Credit cards and others	(8,322)	(8,636)
Other fee expense	(2,714)	(4,132)
	<u>(11,036)</u>	<u>(12,768)</u>
Net fee and commission income	<u>17,949</u>	<u>18,311</u>

12 Net investment income

	2023 AED'000	2022 AED'000
<u>Investments carried at fair value through profit or loss</u>		
(Loss)/gain on disposal	(773)	7,226
Changes in fair value	(240)	(3,821)
Dividends	1,276	1,880
	<u>263</u>	<u>5,285</u>
<u>Net gain from investments carried at fair value through profit or loss</u>		
<u>Income from investments carried at fair value through other comprehensive income</u>		
Dividends	4,934	7,039
Realized gain on disposal of investment carried at amortized cost	-	39
	<u>5,197</u>	<u>12,363</u>
Net income from investments	<u>5,197</u>	<u>12,363</u>

13 Other operating income, net

	2023 AED'000	2022 AED'000
Rental income from investment property	423	392
Others	57,737	24,052
	<u>58,160</u>	<u>24,444</u>

*Others mainly includes income on interest in suspense released during the year for clients transferred from stage 3 to stage 2.

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14 Salaries and employees related expenses

	2023 AED'000	2022 AED'000
Basic salaries	26,750	20,332
Cost of living allowance	19,175	17,862
Employees outsourced	14,679	15,219
Housing allowance	8,236	7,961
Gratuity	1,426	1,719
Others	20,735	23,161
	<u>91,001</u>	<u>86,254</u>

15 General and administrative expenses

	2023 AED'000	2022 AED'000
Lease expense	5,405	4,195
Communication expenses	3,631	2,920
Professional fees	6,311	6,821
Repair and maintenance	969	1,288
Advertising, maintenance and other expenses	27,018	26,877
	<u>43,334</u>	<u>42,101</u>

16 Basic and diluted earnings/(loss) per share

Earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year by the weighted average number of shares outstanding during the year. Diluted earnings/(loss) per share is determined by adjusting the net profit/(loss) and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. As at 31 December 2023, the Group has not issued any instruments which dilutive impact on earnings/(loss) per share would have when converted or exercised.

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16 Basic and diluted earnings/(loss) per share (continued)

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

	2023 AED'000	2022 AED'000
Profit for the year attributable to equity holders of the parent	35,984	1,916
Less: Tier 1 Sukuk coupon paid	(17,024)	(16,907)
Less: Proposed directors' remuneration	(3,598)	(2,048)
	15,362	(17,039)
Number of ordinary shares in issue (thousands)	302,838	302,838
Less: Treasury shares (thousands)	(28,569)	(20,157)
Less: Employees' share-based payment scheme (thousands)	(1,750)	(1,750)
	272,519	280,931
Weighted average number of shares (thousands)	272,519	280,931
Earnings per share (AED)	0.06	(0.06)

17 Cash and cash equivalents

	2023 AED'000	2022 AED'000
Cash balances		
Cash on hand	7,033	8,407
Due from banks with original maturities of less than three months		
Placements with banks	-	110,504
Call accounts	27,051	192,632
Current and demand accounts	41,728	86,652
Balance with the Central Bank of the UAE	213,637	362,292
Restricted cash balances*	6,000	6,000
	288,416	758,080
Due to banks and other financial institutions with original maturity of less than three months	(32,795)	(30,059)
Other restricted cash balances*	(6,000)	(6,000)
Net cash and cash equivalents	256,654	730,428

*Restricted cash represents deposits with CBUAE amounting to AED 6,000 thousand (2022: AED 6,000 thousand).

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18 Investments

	At fair value through other comprehensive income AED'000	At fair value through profit or loss AED'000	At amortized cost AED'000	Total AED'000
2023				
Equity instruments:				
- Quoted *	73,003	20,972	-	93,975
- Unquoted	32,844	-	-	32,844
Debt instruments				
- Quoted - Fixed rate	-	-	44,916	44,916
Unquoted investment in managed funds	611	-	-	611
	106,458	20,972	44,916	172,346
Within UAE	103,322	20,972	44,916	169,210
Outside UAE	3,136	-	-	3,136
	106,458	20,972	44,916	172,346
2022				
Equity instruments:				
- Quoted *	129,779	58,831	-	188,610
- Unquoted	45,143	-	-	45,143
Debt instruments				
- Quoted - Fixed rate	33,864	-	-	33,864
Unquoted investment in managed funds	730	-	-	730
	209,516	58,831	-	268,347
Within UAE	204,776	58,831	-	263,607
Outside UAE	4,740	-	-	4,740
	209,516	58,831	-	268,347

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18 Investments (continued)

The Group holds investments in Tier 1 perpetual instruments which are classified under quoted equity instruments amounting to AED 2,537 thousand (2022: AED 3,827 thousand). These instruments carry an average coupon interest/profit rate between 5.25% p.a. to 6.25% p.a (2022: 5.25% p.a to 6.50% p.a).

* Included in this balance investments in shares amounting to AED 65,206 thousand (2022: AED 74,570 thousand) in the name of related parties who has given the parent company full control to act as owner of these shares.

During the year, the Group has redeemed investments on maturity carried at amortized cost of AED Nil (2022: AED 1,847 thousand).

19 Loans and advances

	2023 AED'000	2022 AED'000
Commercial loans		
Commercial overdraft	282,494	296,444
Other commercial advances	1,516,355	1,651,728
	<u>1,798,849</u>	<u>1,948,172</u>
Retail finance		
Personal loans and advances	544,276	497,015
	<u>544,276</u>	<u>497,015</u>
Gross loans and advances	2,343,125	2,445,187
Less: allowances for expected credit losses	<u>(467,455)</u>	<u>(444,039)</u>
Loans and advances	<u>1,875,670</u>	<u>2,001,148</u>

The movement in the allowances for expected credit losses during the year is as follows:

	2023 AED'000	2022 AED'000
At 1 January	444,039	411,551
Charged for the year	23,668	44,009
Reversal of no longer required impairment charges	-	(8,439)
Amounts written off	<u>(252)</u>	<u>(3,082)</u>
Balance at 31 December	<u>467,455</u>	<u>444,039</u>

The allowance for impairment includes a specific provision of AED 379.6 million (2022 AED 372.1 million) for stage 3 loans of the Group.

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

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20 Islamic financing and investing assets

	2023 AED'000	2022 AED'000
Commodity Murabaha	52,635	55,543
Covered card and drawings	10,440	17,411
Ijarah	7,077	6,641
Purchase and lease back	-	484
Others	3,168	3,173
Gross Islamic financing and investing assets	73,320	83,252
Less: allowances for expected credit losses	(59,180)	(60,616)
Islamic financing and investing assets	14,140	22,636

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

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

Allowance for impairment includes a specific provision of AED 59.0 million (2022: AED 60.3 million) for stage 3 Islamic financing and investing assets of the Group.

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

	2023 AED'000	2022 AED'000
Gross Ijara and purchase and lease-back		
Less than one year	7,122	6,447
Between one and three years	1,138	1,816
	8,260	8,263
Less: deferred income	(1,183)	(1,138)
Net Ijara and purchase and lease-back	7,077	7,125
Present value of minimum Ijara and purchase and leaseback payments		
	2023 AED'000	2022 AED'000
Less than one year	6,222	5,428
Between one and three years	855	1,697
	7,077	7,125

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21 Investment in equity accounted investee

The Group has the following investment in associates

	Country of incorporation	Percentage of holding		Principal activity
		2023	2022	
Mainland Management L.L.C.	UAE	33.33%	33.33%	Hospitality management services
Empay LLC	UAE	30%	30%	Digital Payment Ecosystem & services

Movement in investment in an associates is as follows:

	2023 AED'000	2022 AED'000
At 1 January	82,613	86,881
Share of results for the year	(399)	(4,268)
At 31 December	82,214	82,613

Summarized financial information of the associate is set out below:

	2023 AED'000	2022 AED'000
Associate's statement of financial position		
Assets	222,165	222,161
Liabilities	(68,507)	(49,113)
Net assets	153,658	173,048
Group's share of net assets	82,214	82,613
Carrying amount of investment in an associate	82,214	82,613
Loss for the year	(1,197)	(13,804)
Group's share of results for the year	(399)	(4,268)

The financial information on Empay LLC has not been provided due to non-availability of the financial information as of the date of financial position.

Finance House P.J.S.C
Consolidated financial statements

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

22 Interest receivable and other assets

	2023 AED'000	2022 AED'000
Accounts receivable	17,668	20,266
Less: Allowance for expected credit losses	<u>(1,774)</u>	<u>(1,634)</u>
	15,894	18,632
Prepayments	16,048	22,914
Interest receivable and profit receivable	9,664	16,104
Other assets	21,654	13,823
	<u>63,260</u>	<u>71,473</u>

Finance House P.J.S.C
Consolidated financial statements

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

23 Property, fixtures and equipment

	Freehold land AED'000	Rights of use assets AED'000	Building AED'000	Furniture, fixtures and equipment AED'000	Motor vehicles AED'000	Computer hardware and software AED'000	Capital work-in- progress AED'000	Total AED'000
Cost:								
At 1 January 2022	20,000	10,466	55,000	38,842	2,901	58,429	19,295	204,933
Additions during the year	-	512	-	573	772	867	12,842	15,566
Disposal	-	(10,468)	-	-	(575)	-	-	(11,043)
At 31 December 2022	20,000	510	55,000	39,415	3,098	59,296	32,137	209,456
At 1 January 2023	20,000	510	55,000	39,415	3,098	59,296	32,137	209,456
Additions during the year	3,714	-	1,443	12,076	-	15,318	(20,168)	12,383
Disposal	-	(510)	-	-	-	-	-	(510)
At 31 December 2023	23,714	-	56,443	51,491	3,098	74,614	11,969	221,329

Finance House P.J.S.C
Consolidated financial statements

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

23 Property, fixtures and equipment (continued)

	Freehold land AED'000	Rights of use assets AED'000	Building AED'000	Furniture, fixtures and equipment AED'000	Motor vehicles AED'000	Computer hardware and software AED'000	Capital work-in- progress AED'000	Total AED'000
<i>Accumulated depreciation:</i>								
At 1 January 2022	-	9,256	5,195	38,148	2,023	51,051	-	105,673
Charge for the year	-	1,358	1,833	535	422	5,006	-	9,154
Release on disposals	-	(10,465)	-	-	(575)	-	-	(11,040)
At 31 December 2022	-	149	7,028	38,683	1,870	56,057	-	103,787
At 1 January 2023	-	149	7,028	38,683	1,870	56,057	-	103,787
Charge for the year	-	256	882	327	344	5,140	406	7,355
Release on disposals	-	(405)	(3,221)	-	-	-	-	(3,626)
Transfer	-	-	(3,651)	-	-	-	-	(3,651)
At 31 December 2023	-	-	1,038	39,010	2,214	61,197	406	103,865
<i>Net book value:</i>								
At 31 December 2022	20,000	361	47,972	732	1,228	3,239	32,137	105,669
At 31 December 2023	23,714	-	55,405	12,481	884	13,417	11,563	117,464

*Out of total depreciation expense of AED 7,355 thousands (2022: AED 9,154 thousands), AED 787 thousands (2022: AED 1,365 thousands) for the year has been classified to insurance expense.

Finance House P.J.S.C
Consolidated financial statements

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

24 Intangibles

	Goodwill AED'000
2023	
At 1 January	<u>6,705</u>
At 31 December	<u><u>6,705</u></u>
2022	
Carrying value:	
At 1 January	<u>6,705</u>
At 31 December	<u><u>6,705</u></u>

Goodwill

Goodwill acquired through business combinations relates to Finance House L.L.C.

Impairment test of goodwill

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

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

25 Investment properties

	2023 AED'000	2022 AED'000
At 1 January	4,100	3,500
Acquisition	29,525	-
Disposed	(4,100)	-
Changes in fair value	1,417	600
At 31 December	<u><u>30,942</u></u>	<u><u>4,100</u></u>

Finance House P.J.S.C
Consolidated financial statements

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

25 Investment properties (continued)

Investment properties comprise a commercial property located in Ajman Industrial 2, a flat in Al Raha, Abu Dhabi and three flats in Business Bay, Dubai with a fair market value of AED 30,942 thousand (2022: a villa in Green Community, Dubai with fair market value of AED 4,100 thousand).

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

The net rental income recognised during the year is AED 423 thousand (2022: *AED 336 thousand*) and is recognised in the consolidated statement of profit or loss under 'other operating income'.

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

26 Customers' deposits and margin accounts

	2023 AED'000	2022 AED'000
Call and demand deposits	450,359	704,292
Time deposits	886,634	1,111,763
	<u>1,336,993</u>	<u>1,516,055</u>
Margin accounts	225,696	244,619
	<u>1,562,689</u>	<u>2,060,674</u>

Analysis of customers' deposits by sector is as follows:

	2023 AED'000	2022 AED'000
<i>By type:</i>		
Government	40,688	127,250
Corporate	1,522,001	1,933,424
	<u>1,562,689</u>	<u>2,060,674</u>

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

Customers' deposits and margin accounts carry interest/profit rates ranging from 0.25% to 6.50% p.a (2022: 0% to 5.15% p.a).

Finance House P.J.S.C
Consolidated financial statements

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

27 Short term borrowings and medium-term loans

1) Short-term borrowings

	2023 AED'000	2022 AED'000
At 1 January	340,000	441,910
Proceeds during the year	150,000	299,787
Repayments	(275,000)	(401,697)
At 31 December	215,000	340,000

Loan	Year of maturity	2023 Carrying amount AED'000	2022 Carrying amount AED'000
Term loan 1	2024/2023	150,000	150,000
Term loan 2	2024/2023	65,000	65,000
Term loan 3	2023	-	65,000
Term loan 4	2023	-	60,000

These short-term borrowings carry variable interest rates ranging from 7.73% p.a to 9.9% p.a (2022: 5.99% p.a to 8.00% p.a).

2) Medium term loans

	2023 AED'000	2022 AED'000
At 1 January	66,667	100,000
Repayments	(33,334)	(33,333)
At 31 December	33,333	66,667

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

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

Finance House P.J.S.C
Consolidated financial statements

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

28 Interest payable and other liabilities

	2023 AED'000	2022 AED'000
Trade payables		-
Interest payable and profit payable	25,160	20,252
Accrued expenses	26,189	27,677
Unclaimed cheques	5,136	4,820
Other liabilities	17,140	6,170
	73,625	58,919

29 Provision for employees' end of service benefits

	2023 AED'000	2022 AED'000
At 1 January	14,371	14,328
Charge for the year	1,986	2,386
Payments	(3,229)	(2,343)
At 31 December	13,128	14,371

30 Share capital

	2023 AED'000	2022 AED'000
302.8 million shares (2022: 302.8 million shares) of AED 1 each (2022: AED 1 each)	302,838	302,838

31 Treasury shares

Treasury shares represent the cost of 28,569 thousand shares of the Company held by the Company as at 31 December 2023 (2022: 26,354 thousand shares).

	2023		2022	
	Number of shares '000	AED'000	Number of shares '000	AED'000
Share held by Finance House P.J.S.C	28,569	51,196	26,354	46,535
	28,569	51,196	26,354	46,535

During 2021, the Company obtained regulatory approvals to undertake a share-buy program whereby the Company buys and sells its own shares in the normal course of its equity trading and marketing activities. These shares are treated as a deduction from shareholders' equity. Gain and loss on sales or redemption of own shares are credited or charged to reserves. During 2023, a total of 2,214,844 shares (2022: 8,695,156 shares) were purchased back from the market at an average price of AED 2.10 (2022: AED 1.92) per share amounting to AED 4,661 thousand (2022: AED 16,712 thousand).

Finance House P.J.S.C

Consolidated financial statements

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2023

32 Employees' share-based payment scheme

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

During the year, no shares were granted to employees and the value of outstanding shares not yet granted to employees as at 31 December 2023 were AED 1,750 thousand (2022: AED 1,750 thousand).

33 Statutory reserve

In line with the provisions of the UAE Federal Commercial Companies Law No. (32) of 2021, the Company is required to transfer annually to a statutory reserve account an amount equivalent to 10% of its profit, until such reserve reaches 50% of the share capital of the Company. No transfer has been made to this reserve as the reserve has already reached 50% of the share capital (2022: Nil). The statutory reserve is not available for distribution.

34 Tier 1 capital instruments

In July 2015, the Company raised financing by way of Shariah compliant Tier 1 Capital Certificates amounting to AED 300 million (Tier 1 Sukuk). Issuance of these Capital Certificates was approved by the Company's Extra Ordinary General Meeting (EGM) in April 2015. The Central Bank of the UAE approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Certificates bear profit at a fixed rate payable semi-annually in arrears. The Capital Certificates are non-cumulative perpetual securities for which there is no fixed redemption date and are callable by the Company subject to certain conditions. Tier 1 Sukuk amounting to AED 23,900 thousand (2022: AED 23,800 thousand) are held by subsidiaries of the Group and, accordingly, eliminated in the consolidated statement of financial position. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon profit rate of ranging from 6.058% to 6.14%% p.a (2022: 6.058% to 6.14%%p.a).

In March 2019 the subsidiary of the Company 'Insurance House' raised Tier 1 Perpetual Bonds amounting to AED 15 million. Issuance of these perpetual bonds was approved by the Extra Ordinary General Meeting (EGM) in January 2019. These perpetual bonds bear profit at a fixed rate payable semi-annually in arrears. The perpetual bonds are non-cumulative perpetual securities for which there is no fixed redemption date and are callable by the subsidiary subject to certain conditions. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon profit rate of 8.25% p.a.(2022: 8.25% p.a.).

35 Commitments and contingent liabilities

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

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

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

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

35 Commitments and contingent liabilities (continued)

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

	2023 AED'000	2022 AED'000
Letters of credit	1,342	122
Letters of guarantee	399,344	505,107
Capital commitments	4,249	4,249
	<u>404,935</u>	<u>509,478</u>

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

36 Related party disclosures

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

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

	2023 AED'000	2022 AED'000
Loans and advances to customers		
To key management staff	<u>105</u>	1,041
To members of board of directors	<u>59,984</u>	35,045
To other related party	<u>55,695</u>	29,139
Customers' deposits		
From other entities under common control	<u>252</u>	3,577

Balances with related parties include loans granted to Directors and their related parties amounting to AED 115,679 thousand as at 31 December 2023 (2022: AED 64,184 thousand). Loans and advances to related parties are determined by management at agreed rates.

Customers' deposits and margin accounts carry fixed interest rate ranging from 0% to 0.75% per annum (2022: 0% to 0.75% per annum).

Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables.

Finance House P.J.S.C
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Notes to the consolidated financial statements (continued)
For the year ended 31 December 2023

36 Related party disclosures (continued)

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

	2023 AED'000	2022 AED'000
Interest and commission income		
From key management staff	31	60
From members of board of directors	4,402	2,884
From others	2,788	709
To others	16	289
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	14,467	15,047

During the year the Group paid directors' remuneration amounting to AED 2,048 thousands (2022: AED 2,251 thousands) and proposed directors' remuneration AED 3,466 thousands (2022: AED 2,048 thousands).

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at agreed rates.

37 Legal proceedings

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

38 Corporate tax

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

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

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

Finance House P.J.S.C
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Notes to the consolidated financial statements (continued)
For the year ended 31 December 2023

39 Restatement

During the current year, Management has identified errors in the accounting of transactions related to the reinsurance business of medical and personal assurance for prior periods. During the quarter ended 31 March 2023, Management had carried out internal assessment (as well as engaged external consultant to review the reconciliation process) and assessed the impact and accounted for reversal of receivable from reinsurance contract aggregating AED 69,343,226 as at 31 December 2022 with corresponding impact to Accumulated Losses.

Further, management has also identified errors in computation of deferred acquisition cost asset (forming part of Insurance Contract Liabilities) as of 31 December 2022 and assessed the impact and accounted for reversal of AED 5,688,600 from deferred acquisition cost as at 31 December 2022 with corresponding impact to Accumulated Losses on retrospective basis.

In accordance with the requirements of 'IAS 1 Presentation of Financial Statements' and 'IAS 8 Accounting policies, Changes in Accounting Estimates and Errors', the prior period errors had been corrected retrospectively by restating the relevant comparative balances in these financial statements.

40 Approval of consolidated financial statements

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 14 February 2024.

Chairman's Report for the year ended 31 December 2023

On behalf of the Board of Directors, I am pleased to present the consolidated financial statements of Finance House P.J.S.C. and its subsidiaries (FH Group) for the financial year ended 31 December 2023.

In retrospect, 2023 was a year of growth, sustainability, and remarkable achievements for the UAE. The President HH Sheikh Mohammed Bin Zayed Al Nahyan declared 2023 as the "Year of Sustainability", Foreign Direct Inflows into the UAE crossed US\$ 25 billion, UAE successfully hosted the COP 28 Conference, Corporate Income Tax Law formally came into effect and a spate of successful IPOs both from the Public & Private sectors boosted market capitalization of ADX & DFM as well as investors' wealth.

During 2023, the FH Group continued to focus its energies on strengthening Capital Ratios, maintaining Liquidity buffers, improving asset quality, leveraging cloud technology for improved operational efficiencies and in building digitally enabled Products & Services.

For the year ended 31 December 2023, the FH Group has posted a Consolidated Net Profit of AED 14.81 million, compared to a Loss AED 11.33 million registered in the previous financial year ended 31 December 2022.

Net Interest Income and Income from Islamic Financing & Investing Assets held steady at AED 137.80 million in 2023 compared to AED 138.25 million in the previous year. Despite a rapidly rising interest rate scenario, we successfully protected our net-interest margins with timely interest-rate management actions, on both sides of the balance sheet. Net Fee and Commission income earned in 2023 also held steady at AED 17.95 million compared to AED 18.31 million in the previous year.

Intense price competition in the underwriting of motor insurance business in the UAE, resulted in a squeeze on Net Insurance Income across the whole sector. Our insurance subsidiary- Insurance House

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Finance House P.J.S.C; P.O.Box 7878, Abu Dhabi, U.A.E; Tel: +971 (2) 6219 999

شركة مساهمة عامة برأس مال وقدره ٧٧٠, ٨٣٧, ٣٠٢ درهم إماراتي 302,837,770 AED and the share capital is Public Joint Stock Company

PJSC registered a Net Insurance Loss of AED 40.35 million in 2023 compared to a Net Insurance Loss of AED 25.99 million in the previous year. Net Investment Income from group-wide investing activities was lower at AED 5.20 million compared to AED 12.36 million in the previous year, primarily due to volatile equity markets- locally & globally.

Robust recoveries from the Non-Performing Portfolio (both Corporate & Retail) boosted Other Operating Income to AED 57.75 million in 2023 compared to AED 24.44 million in the previous year.

Total Operating Expenses for 2023 at the Group level were slightly higher at AED 140.91 million compared to AED 136.15 million in the previous year. This is primarily due to targeted new employee hires to support profitable business growth in select business lines across the FH Group.

As a combined result of the above factors, Net Operating Income for 2023 was significantly higher by 20.93% at AED 156.11 million compared to AED 129.09 million in the previous year.

Net Loans & Advances including Islamic Financing & Investing Assets as of 31 December 2023 stood at AED 1.89 billion compared to AED 2.02 billion as at the end of the previous year. Customers' Deposits & Margin Accounts stood at AED 1.56 billion as of 31 December 2023, compared to AED 2.06 billion as at the end of the previous year.

In line with the expected credit loss model (ECL) for loan impairment provisioning under IFRS 9, net impairment charge for the year 2023 was AED 22.23 million compared to AED 38.29 million in the previous year. With gradual improvement in economic conditions anticipated over the coming 12 months, net impairment charge is expected to moderate further, next year.



Date: 22 March 2024
Ref: 09/FC/TKR/2024

At the consolidated level, Shareholders' equity as at 31 December 2023 stood at AED 661.93 million. Cash & Cash equivalents as of 31 December 2023 stood at a healthy 9.3% of Total Assets, highlighting the Group's conservative approach to liquidity management.

With the objective of preserving the cash resources of the Group for investment in upcoming strategic initiatives, the Board does not recommend distribution of any cash dividend for the financial year ended 31 December 2023.

In line with gradual improvements in private sector operating conditions across the UAE, we fine-tune our strategies and strategy execution capabilities on a regular basis to take advantage of improving market conditions. We remain confident that we will continue to spot and exploit profitable opportunities, adapt quickly to changing market conditions, manage risks prudently and maximize returns for our shareholders.

On behalf of the Board of Directors,



Mohammed Abdulla Jumaa Alqubaisi

Vice Chairman
Abu Dhabi
22 March 2024