Finance House P.J.S.C.

Condensed consolidated interim financial information
For the three-month period ended 31 March 2024

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Report on review of the condensed consolidated interim financial information
To the Shareholders of Finance House P.J.S.C.

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Finance House P.J.S.C. (the "Company") and its subsidiaries (together the "Group") as at 31 March 2024 and the related condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the three-month period then ended, and other explanatory notes. Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standard Board (IASB). Our responsibility is to express a conclusion on the condensed interim consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

The Group's investment in Empay LLC, an investment in associate accounted for using the equity method, is carried at AED 34,450 thous6and on the condensed consolidated interim statement of financial position as at 31 March 2024. We were unable to obtain sufficient and appropriate audit evidence on the carrying amount of the investment as at 31 March 2024, share of investments results for the period and related disclosures as there was no financial information available. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" as issued by the IASB.

Grant Thornton

GRANT THORNTON UAE

Farouk Mohamed
Registration No 86
Abu Dhabi, United Arab Emirates

14 May 2024

Condensed consolidated interim statement of financial position
As at 31 March 2024 (continued)

	Note	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Assets			
Cash on hand	8	**8,944**	7,033
Due from banks and financial institutions	8	**557,832**	288,416
Investment securities	9	**190,677**	172,346
Loans and advances, net	10.1	**1,883,013**	1,875,670
Islamic financing and investing assets	10.2	**13,533**	14,140
Investment in equity accounted investees		**83,110**	82,214
Interest receivable and other assets		**104,837**	63,260
Reinsurance contract assets		**126,098**	107,332
Investment properties		**30,942**	30,942
Property, fixtures and equipment		**116,317**	117,464
Intangible assets		**6,705**	6,705
Total assets		**3,122,008**	2,765,522
Liabilities			
Customers' deposits and margin accounts	11	**1,834,592**	1,562,689
Due to banks and other financial institutions	8	**32,239**	32,795
Short term borrowings		**295,000**	215,000
Medium term loan		**33,333**	33,333
Insurance contract liabilities		**178,851**	173,026
Interest payable and other liabilities		**86,521**	73,625
Provision for employees' end of service benefits		**13,334**	13,128
Total liabilities		**2,473,870**	2,103,596

The accompanying notes from 1 to 24 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of financial position
As at 31 March 2024 (continued)

	Note	**(Unaudited) 31 March 2024 AED'000**	(Audited) 31 December 2023 AED'000
Equity			
Share capital	12	**302,838**	302,838
Treasury shares	13	**(51,196)**	(51,196)
Employees' share-based payment scheme	14	**(1,750)**	(1,750)
Statutory reserve		**151,671**	151,671
Fair value reserve		**(55,979)**	(56,061)
Accumulated losses		**(29,308)**	(18,844)
Tier 1 sukuks	16	**276,100**	276,100
Tier 1 bonds	16	**15,000**	15,000
Proposed directors' remuneration		**3,598**	3,598
Attributable to the owners of the parent		**610,974**	621,356
Non-controlling interests		**37,164**	40,570
Total equity		**648,138**	661,926
Total equity and liabilities		**3,122,008**	2,765,522
Commitments and contingent liabilities	15	**415,681**	404,935

This condensed consolidated interim financial information was authorized and approved for issue by the Board of Directors on 14 May 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 24 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of profit or loss (unaudited)
For the three-month period ended 31 March 2024

	Note	(Unaudited) For the three-month period ended 31 March 2024 AED'000	2023 AED'000
Interest income and income from Islamic financing and investing assets	5	**56,492**	58,029
Interest expense and profit distributable to depositors	5	**(23,462)**	(22,121)
Net interest income and income from Islamic financing and investing assets		**33,030**	35,908
Fee and commission income		**7,091**	7,338
Fee and commission expenses		**(2,931)**	(3,018)
Net fee and commission income		**4,160**	4,320
Insurance service result before reinsurance contracts issued		**(27,327)**	(27,008)
Net income from reinsurance contracts held		**20,580**	17,299
Net insurance financial expenses		**(1,077)**	(2,534)
Reinsurance finance income for reinsurance contracts held		**1,949**	2,656
Net insurance loss		**(5,875)**	(9,587)
Net investment income	6	**963**	2,144
Allowances for expected credit losses on loans and advances	10.1	**(11,048)**	(21,399)
Reversal of/(allowance for) expected credit losses on Islamic financing and investing assets	10.2	**386**	(65)
Other operating income		**2,207**	29,704
Net operating income		**23,823**	41,025
Salaries and employees related expenses		**(23,734)**	(22,624)
Depreciation of property, fixtures and equipment		**(2,487)**	(1,405)
General and administrative expenses		**(7,575)**	(9,613)
Operating (loss)/profit for the period		**(9,973)**	7,383
Share of profit from associates		**897**	207
(Loss)/profit for the period before tax		**(9,076)**	7,590
Current tax expense		**-**	-
(Loss)/profit for the period after tax		**(9,076)**	7,590
Attributable to:			
Equity holders of the parent		**(5,923)**	12,078
Non-controlling interests		**(3,153)**	(4,488)
		(9,076)	7,590
Basic and diluted earnings/(loss) per share attributable to ordinary shares (AED)	7	**(0.04)**	0.03

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The accompanying notes from 1 to 24 form an integral part of this condensed consolidated interim financial information

Condensed consolidated interim statement of other comprehensive income (unaudited)
For the three-month period ended 31 March 2024

	(Unaudited) For the three-month period ended 31 March	
	2024	2023
	AED'000	AED'000
(Loss)/profit for the period after tax	**(9,076)**	7,590
Other comprehensive loss:		
Items that will not be reclassified to profit or loss:		
Change in fair value of financial assets carried at fair value through other comprehensive income	**(176)**	(886)
Other comprehensive loss for the period	**(176)**	(886)
Total comprehensive (loss)/income for the period	**(9,252)**	6,704
Total comprehensive (loss)/income attributable to:		
Equity holders of the parent	**(5,846)**	11,148
Non-controlling interests	**(3,406)**	(4,444)
	(9,252)	6,704

The accompanying notes from 1 to 24 form an integral part of this condensed consolidated interim financial information

Condensed consolidated interim statement of changes in equity
For the three-month period ended 31 March 2024

	Share capital	Treasury shares	Employees' share-based payment scheme	Statutory reserve	Fair value reserve	Accumulated losses	Proposed directors' remuneration	Tier 1 Sukuk	Tier 1 Bonds	Attributable to 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 as at 1 January 2024	302,838	(51,196)	(1,750)	151,671	(56,061)	(18,844)	3,598	276,100	15,000	621,356	40,570	661,926
Loss for the period	-	-	-	-	-	(5,923)	-	-	-	(5,923)	(3,153)	(9,076)
Loss on disposal of financial assets carried at fair value through other comprehensive income	-	-	-	-	(28)	28	-	-	-	-	33	33
Change in fair value of financial assets carried at fair value through other comprehensive income	-	-	-	-	110	-	-	-	-	110	(286)	(176)
Total other comprehensive loss for the period	-	-	-	-	110	(5,923)	-	-	-	(5,813)	(3,439)	(9,252)
Tier 1 sukuks coupon paid	-	-	-	-	-	(4,259)	-	-	-	(4,259)	-	(4,259)
Tier 1 bonds coupon paid	-	-	-	-	-	(310)	-	-	-	(310)	-	(310)
Balance as at 31 March 2024	302,838	(51,196)	(1,750)	151,671	(55,979)	(29,308)	3,598	276,100	15,000	610,974	37,164	648,138

The accompanying notes from 1 to 24 form an integral part of this condensed consolidated interim financial information

Condensed consolidated interim statement of changes in equity (unaudited) (continued)
For the three-month period ended 31 March 2024

	Share capital	Treasury shares	Employees' share-based payment scheme	Statutory reserve	Fair value reserve	Accumulated losses	Proposed directors' remuneration	Tier 1 Sukuk	Tier 1 Bonds	Attributable to 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	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	-	-	-	-	-	(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 of 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
Profit for the period	-	-	-	-	-	12,078	-	-	-	12,078	(4,488)	7,590
Loss on disposal of financial assets carried at fair value through other comprehensive income	-	-	-	-	(1)	1	-	-	-	-	-	-
Change in fair value of financial assets carried at fair value through other comprehensive income	-	-	-	-	(930)	-	-	-	-	(930)	44	(886)
Total other comprehensive income for the period	-	-	-	-	(931)	12,079	-	-	-	11,148	(4,444)	6,704
Directors' remuneration paid	-	-	-	-	-	-	(1,656)	-	-	(1,656)	-	(1,656)
Tier 1 sukuks coupon	-	-	-	-	-	(4,466)	-	-	-	(4,466)	-	(4,466)
Tier 1 bonds coupon paid	-	-	-	-	-	(310)	-	-	-	(310)	-	(310)
Balance at 31 March 2023	302,838	(46,535)	(1,750)	151,671	(57,899)	(30,846)	392	276,200	15,000	609,071	61,221	670,292

The accompanying notes from 1 to 24 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows
For the three-month period ended 31 March 2024

	Note	(Unaudited) For the three-month period ended 31 March 2024 AED'000	2023 AED'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the period before tax		**(9,076)**	620
Adjustments for:			
Depreciation of property, fixtures and equipment		**2,487**	1,734
Share of profit from associates		**(896)**	(207)
Dividend income from investments		**(2,495)**	(4,747)
Gain on disposal of investments carried at fair value through profit or loss		**(604)**	(1,827)
Net change in fair value of investments carried at fair value through profit or loss		**2,136**	4,430
Allowance for impairment of loans and advances		**11,048**	21,464
Reversal of allowance for impairment on Islamic assets		**(386)**	-
Provision for employees' end of service benefits		**2,523**	2,700
Operating profits before working capital changes:		**4,737**	24,167
Changes in working capital:			
Change in Islamic financing and investing assets		**993**	537
Change in loans and advances		**(18,391)**	(19,086)
Change in interest receivable and other assets		**(41,577)**	(8,453)
Change in reinsurance contract assets		**(18,766)**	(30,591)
Change in customers' deposits and margin accounts		**271,903**	(286,586)
Change in interest payable and other liabilities		**12,896**	647
Insurance contract liabilities		**5,825**	16,933
Cash generated from/(used in) operating activities		**217,620**	(302,432)
Payment of employees' end of service benefits		**(2,317)**	(2,343)
Directors' remuneration paid		**-**	(1,656)
Net cash generated from/(used in) operating activities		**215,303**	(306,431)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments carried at fair value through other comprehensive income		**(1,000)**	-
Proceeds from sale of investments carried at fair value through other comprehensive income		**2,229**	1,510
Purchase of investments carried at fair value through profit or loss		**(26,528)**	(5,022)
Proceeds from sale of investments carried at fair value through profit or loss		**5,288**	9,904
Purchase of investments through amortized cost		**5**	-

The accompanying notes from 1 to 24 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of cash flows (continued)
For the three-month period ended 31 March 2024

	Note	(Unaudited) For the three-month period ended 31 March 2024 AED'000	2023 AED'000
Purchase of property, fixtures and equipment		**(1,340)**	(3,589)
Dividend received		**2,495**	4,747
Net cash (used in)/generated from investing activities		**(18,851)**	7,550
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short term borrowings		**(150,000)**	(60,000)
Proceeds from short term borrowings		**230,000**	-
Tier 1 sukuks coupon paid		**(4,259)**	(4,466)
Tier 1 bonds coupon paid		**(310)**	(310)
Net cash generated from/(used in) from financing activities		**75,431**	(64,776)
Net increase/(decrease) in cash and cash equivalents		**271,883**	(363,657)
Cash and cash equivalents, beginning of period		**256,654**	730,428
Cash and cash equivalents, end of period	8	**528,537**	366,771

The accompanying notes from 1 to 24 form an integral part of this condensed consolidated interim financial information.

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 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 condensed interim financial information has been prepared in accordance with the requirements of the applicable laws and regulations, including UAE Federal Law No. (32) of 2021. The shareholder of the Company is currently in the process of amending the statutory documents, to reflect the changes required due to application of the UAE Federal law No. (32) of 2021.

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

The Company was established on 13 March 2004 and commenced its operations on 18 July 2004.

The Company and its subsidiaries (together referred to as the "Group") are engaged primarily in investments, consumer and commercial financing, insurance, brokerage and other related services.

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

2 Basis of preparation

This condensed consolidated interim financial information of the Group is prepared on an accrual basis and under the historical cost basis except for certain financial instruments and investment properties which are measured at fair value.

This condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34: "*Interim Financial Reporting*" issued by the International Accounting Standards Board (IASB) and comply with the applicable requirements of the laws in the UAE.

This condensed consolidated interim financial information does not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2023. In addition, results for the period from 1 January 2024 to 31 March 2024 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2024.

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, Islamic financing and investing assets and investment properties have been disclosed in the condensed consolidated interim financial information.

3 Material accounting policies

In preparing this condensed consolidated interim financial information, the Group's accounting policies were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2023, with the exception of new standards applicable from 1 January 2024 and several amendments and interpretations apply for the first time in 2024.

3 Material accounting policies (continued)

Standards, interpretations and amendments to existing standards that are effective in 2024

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2024, have been adopted in these financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2 Climate-related Disclosures
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

Amendment to standards and interpretations issued but not yet effective

The new standards and revised IFRS not yet effective and have not been adopted early by the Company include:

New and revised IFRS	**Effective for annual periods beginning on or after**
IFRS 18 Presentation and Disclosures in Financial Statements: IFRS 18 includes requirements for all entities applying IFRS for the presentation and disclosure of information in financial statements.	1 January 2027
Lack of Exchangeability (Amendments to IAS 21) The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.	1 January 2025
Amendments to the SASB standards to enhance their international applicability. The amendments remove and replace jurisdiction-specific references and definitions in the SASB standards, without substantially altering industries, topics or metrics	1 January 2025

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the Company's financial statements in the period of initial application disclosures have not been made.

3 Material accounting policies (continued)

3.2 Use of judgments and estimates

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that were applied to the 'consolidated financial statements as at and for the year ended 31 December 2023.

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.

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.

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.

3 Material accounting policies (continued)

3.2 Use of judgments and estimates (continued)

Insurance and reinsurance contracts (continued)

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.

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.

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

	1 year		3 years		5 years		10 years		20 years	
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Insurance contracts issued	6.66	6.02	5.72	5.66	5.35	5.46	5.02	5.19	5.36	5.10
Reinsurance contracts held	6.66	6.02	5.72	5.66	5.35	5.46	5.02	5.19	5.36	5.10

3 Material accounting policies (continued)

3.2 Use of judgments and estimates (continued)

Insurance and reinsurance contracts (continued)

Risk adjustment for non-financial risk

The Group uses a Solvency II 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. 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.

3 Material accounting policies (continued)

3.2 Basis of consolidation

The condensed consolidated interim financial information incorporates the financial information of the Company and its subsidiaries (collectively referred to as "the Group").

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial information of subsidiaries is included in the condensed consolidated interim financial information from the date that control commences until the date that control ceases. The details of the Group's subsidiaries and their principal activities are as follows:

Name of subsidiary	Country of incorporation	Ownership interest % 31 March 2024	31 December 2023	Principal activity
Finance House LLC	UAE	**100**	100	Financing services
Insurance House P.J.S.C	UAE	**45.61**	45.61	Insurance
Finance House Securities Co LLC	UAE	**70**	70	Brokerage
F.H. Capital PJS	UAE	**100**	100	Investment and asset management
Finance House Holding LLC	UAE	**100**	100	Services

Transactions eliminated on consolidation

All intra group balances and income, expenses and cash flows resulting from intra group transactions are eliminated in full upon consolidation.

3 Material accounting policies (continued)

Corporate income tax

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime is effective from 1 June 2023 and accordingly, it has an income tax-related impact on the financial information for accounting periods beginning on or after 1 June 2023.

The Cabinet of Ministers Decision No. 116 of 2022 specifies the threshold of 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. A rate of 9% will apply to taxable income exceeding AED 375,000 and a rate of 0% will apply to taxable income not exceeding AED 375,000 and a rate of 0% on qualifying income of free zone entities.

The Group is subject to taxation commencing 1 January 2024. Based on the above, the Group is in process of preparing an assessment of its deferred tax implication. In addition, certain other cabinet decisions are pending as on the date of this condensed consolidated interim financial information, the Group will continue to assess the impact of these pending cabinet decisions on deferred taxes as and when finalised and published.

4 Financial risk management

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

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

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2023.

(a) Credit risk

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

The ECL recorded on loans and advances measured at amortised cost and Islamic financing and investing assets measured at amortised cost have been disclosed in note 10.1 and 10.2 respectively such that there is no reasonable expectation of recovering in full.

(i) Write-off policy

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the 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 period ended 31 March 2024 was AED 7,921 thousand (31 March 2023: AED Nil 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.

4 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, include that payment will most likely continue. These policies are kept under continuous review.

Risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for at least 12 consecutive months.

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.

(iii) Credit risk measurement

Loans and Advances, Islamic Finances (including 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 use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input 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.

4 Financial risk management (continued)

(a) Credit risk (continued)

(iv) Expected credit loss measurement

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

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

The following diagram summarizes the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

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

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

The Group considers a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

<u>Quantitative criteria</u>

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

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

4 Financial risk management (continued)

(a) Credit risk (continued)

(iv) Expected credit loss measurement (continued)

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

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

Qualitative criteria:

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

Backstop:

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

(v) Definition of default and credit-impaired assets

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

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

- The 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 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.

4 Financial risk management (continued)

(a) Credit risk (continued)
(v) Definition of default and credit-impaired assets (continued)

- 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.
- A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

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.

4 Financial risk management (continued)

(a) Credit risk (continued)
(v) Definition of default and credit-impaired assets (continued)

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

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

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

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and prices.

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

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

Forward-looking information incorporated in the ECL Models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk.

4 Financial risk management (continued)

(a) Credit risk (continued)

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

Credit rating and measurement

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

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

Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer / Chief Credit Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All corporate/exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorized as watch list or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Group directly reporting to the Chief Credit Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Group's consumer portfolio, asset quality is monitored closely with 30/60/90 days past due accounts and delinquency trends are monitored continuously for each consumer product of the Group. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the consumer portfolio is done strictly as per the UAE Central Bank guidelines.

4 Financial risk management (continued)

(a) Credit risk (continued)

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

Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2023.

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amounts of financial assets represent the maximum credit exposure.

4 Financial risk management (continued)

(a) Credit risk (continued)

(vi) Exposure to credit risk

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

	As at 31 March 2024 ECL staging			
	Stage 1	Stage 2	Stage 3	
Credit risk exposures	12-month ECL AED'000	Lifetime ECL AED'000	Lifetime ECL AED'000	Total AED'000
Loans and advances – At amortised cost	1,482,236	377,054	494,305	2,353,595
Less: Allowance for expected credit losses	(28,094)	(66,166)	(376,322)	(470,582)
Carrying amount	1,454,142	310,888	117,983	1,883,013
Islamic financing and investing assets – At amortised cost	3,447	3	68,877	72,327
Less: Allowance for expected credit losses	(154)	(1)	(58,639)	(58,794)
Carrying amount	3,293	2	10,238	13,533

4 Financial risk management (continued)

(a) Credit risk (continued)

(vi) Exposure to credit risk

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

	As at 31 December 2023 (audited)			
	Staging of expected credit losses			
Credit risk exposures	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 – At amortised cost	1,442,021	390,479	510,625	2,343,125
Less: Allowance 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 – At amortised cost	3,756	4	69,560	73,320
Less: Allowance for expected credit losses	(162)	(1)	(59,017)	(59,180)
Carrying amount	3,594	3	10,543	14,140

4 Financial risk management (continued)

(a) Credit risk (continued)

(vi) Exposure to credit risk

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

	As at 31 March 2024			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Grading 1	816,635	31,857	-	848,492
Grading 2	665,601	256,495	-	922,096
Grading 3	-	88,702	114,860	203,562
Grading 4	-	-	57,023	57,023
Grading 5	-	-	322,422	322,422
	1,482,236	377,054	494,305	2,353,595
Less: Allowance for expected credit losses	(28,094)	(66,166)	(376,322)	(470,582)
Carrying amount	1,454,142	310,888	117,983	1,883,013
Islamic financing and investing assets				
Grading 1	2,797	-	2	2,799
Grading 2	650	-	2,648	3,298
Grading 3	-	3	5,167	5,170
Grading 4	-	-	1,009	1,009
Grading 5	-	-	60,051	60,051
	3,447	3	68,877	72,327
Less: Allowance for expected credit losses	(154)	(1)	(58,639)	(58,794)
Carrying amount	3,293	2	10,238	13,533

4 Financial risk management (continued)

(a) Credit risk (continued)

(vi) Exposure to credit risk

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

	As at 31 December 2023 (audited)			
	Staging of expected credit losses			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Grading 1	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: Allowance 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: Allowance for expected credit losses	(162)	(1)	(59,017)	(59,180)
Carrying amount	3,594	3	10,543	14,140

4 Financial risk management (continued)

(b) 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.

(c) 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.

(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 March 2024.

	+1% Increase AED'000	-1% Decrease AED'000
31 March 2024		
Change of 1%	**5,819**	**(7,126)**
Cash flow sensitivity	**5,819**	**(7,126)**
31 March 2023		
Change of 1%	6,020	(6,466)
Cash flow sensitivity	6,020	(6,466)

(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.

4 Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

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.

(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 income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in the reference equity and fixed income benchmarks on the fair value of investments carried at fair value through profit or loss.

	Equity	
	5% Increase AED'000	5% Decrease AED'000
31 March 2024		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	**1,831**	**(1,831)**
Dubai Financial Market Index	**203**	**(203)**
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	**2,802**	**(2,802)**
Dubai Financial Market Index	**-**	**-**
Unquoted investments	**2,297**	**(2,297)**
Cash flow sensitivity	**7,133**	**(7,133)**
31 December 2023 (audited)		
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)

4 Financial risk management (continued)

(c) Market risk (continued)

(iii) Price risk (continued)

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

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Group cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding of potential risk, the Group is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorization and reconciliation procedures, staff training and robust assessment process. The processes are reviewed by risk management and internal audit on an ongoing basis.

(v) 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 minimise 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.

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

	(Unaudited) Three-month ended 31 March	
	2024	2023
	AED'000	AED'000
Loans and advances	**49,377**	49,531
Income from Islamic financing and investing assets	**187**	2,504
Due from banks	**6,349**	5,429
Income from perpetual investments	**241**	226
Other	**338**	339
Interest income and income from Islamic financing and investing assets	**56,492**	58,029
Customers' deposits and margin accounts	**(14,098)**	(11,934)
Due to banks and other financial institutions	**(7,637)**	(10,044)
Profit distributable to depositors	**(1,727)**	(143)
Interest expense and profit distributable to depositors	**(23,462)**	(22,121)
Net interest income and income from Islamic financing and investing assets	**33,030**	35,908

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

6 Net investment income

	(Unaudited) Three-month ended 31 March	
	2024	2023
	AED'000	AED'000
Net gain on disposal of investments carried at fair value through profit or loss	**604**	1,827
Change in fair value of investments carried at fair value through profit or loss	**(2,136)**	(4,430)
Dividends from investments carried at fair value through profit or loss	**1,487**	1,180
Net profit/(loss) from investments carried at fair value through profit or loss	**(45)**	(1,423)
Dividend income from investments carried at fair value through other comprehensive income	**1,008**	3,567
Net income from investments	**963**	2,144

7 Basic and diluted earnings/(losses) per share

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

	(Unaudited) Three months ended 31 March	
	2024	2023
	AED'000	AED'000
Profit for the period attributable to equity holders of the parent	**(5,923)**	12,078
Less: Tier 1 sukuk coupon paid	**(4,259)**	(4,466)
	(10,182)	7,612
Number of ordinary shares in issue	**302,838**	302,838
Less: Treasury shares	**(28,569)**	(26,354)
Less: Employees' share-based payment scheme	**(1,750)**	(1,750)
	272,519	274,734
(Losses)/earning per share (AED)	**(0.04)**	0.03

8 Cash and cash equivalents

	(Unaudited) 31 March 2024	(Audited) 31 December 2023
	AED'000	AED'000
Cash balances		
Cash on hand	**8,944**	7,033
Due from banks		
Balance with the Central Bank of the UAE	**469,000**	199,000
Current and demand accounts	**67,038**	56,365
Placements	**7,000**	-
Call accounts	**8,794**	27,051
Restricted cash balances*	**6,000**	6,000
	557,832	288,416
Due to banks and other financial institutions with original maturity of more than three months	**(32,239)**	(32,795)
Other restricted cash balances*	**(6,000)**	(6,000)
Net cash and cash equivalents	**528,537**	256,654

* Restricted cash represents deposits with the Central Bank of the UAE amounting to AED 6,000 thousand (31 December 2023: AED 6,000 thousand).

9 Investments securities

31 March 2024 (Unaudited)	**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**
Equity instruments:				
- Quoted	**70,631**	**40,680**	**-**	**111,311**
- Unquoted	**33,844**	**-**	**-**	**33,844**
Debt Instruments				
- Quoted, fixed rate	**-**	**-**	**44,911**	**44,911**
Unquoted investment in managed funds	**611**	**-**	**-**	**611**
	105,086	**40,680**	**44,911**	**190,677**
Within UAE	**102,991**	**40,680**	**44,911**	**188,582**
Outside UAE	**2,095**	**-**	**-**	**2,095**
	105,086	**40,680**	**44,911**	**190,677**

31 December 2023 (Audited)	**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**
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

10 Loans and advances and Islamic financing & investing assets

10.1 Loans and advances, net

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Commercial loans		
Commercial overdraft	**297,033**	282,494
Other commercial advances	**1,513,281**	1,516,355
	1,810,314	1,798,849
Retail finance		
Personal loans and advances	**543,281**	544,276
	543,261	544,276
Loans and advances, gross	**2,353,595**	2,343,125
Less: Allowance for expected credit losses	**(470,582)**	(467,455)
Loans and advances, net	**1,883,013**	1,875,670

The movement in the allowance for expected credit losses during the period/year is as follows:

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Opening Balance	**467,455**	444,039
Charges for the period/year	**11,048**	23,668
Amount written off	**(7,921)**	(252)
Closing Balance	**470,582**	467,455

The allowance for expected credit losses includes a specific allowance of **AED 376.3 million** (31 December 2023 AED 379.6 million) for stage 3 loans of the Group.

10 Loans and advances and Islamic financing & investing assets (continued)

10.2 Islamic financing and investing assets

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Commodity Murabaha	**52,132**	52,635
Covered card and drawings	**9,895**	10,405
Ijarah	**7,115**	7,077
Others	**3,185**	3,203
Islamic financing and investing assets, gross	**72,327**	73,320
Less: Allowance for expected credit losses	**(58,794)**	(59,180)
Islamic financing and investing assets, net	**13,533**	14,140

The movement in the allowance for expected credit losses during the period/year is as follows:

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Opening balance	**59,180**	60,616
Reversals during the period/year	**(386)**	(1,436)
Closing balance	**58,794**	59,180

The allowance for expected credit losses include a specific allowance of AED 58.6 million (31 December 2023 AED 59.0 million) for stage 3 Islamic financing and investing assets of the Group.

11 Customers' deposits and margin accounts

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Call and demand deposits	**426,431**	450,359
Time deposits	**1,164,944**	886,634
	1,591,375	1,336,993
Margin accounts	**243,217**	225,696
	1,834,592	1,562,689

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 (2023: 0.25% to 6.50% p.a).

Analysis of customers' deposits by sector is as follows:

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Government	**40,688**	40,688
Corporate	**1,793,904**	1,522,001
	1,834,592	1,562,689

12 Share capital

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
302.8 million shares (2023: 302.8 million shares) of AED 1 each (2023: AED 1 each)	**302,838**	302,838

13 Treasury shares

Treasury shares represent the cost of 28,569 thousand shares of the Group held by the Group as at 31 March 2024 (31 December 2023: 28,569 thousand shares).

14 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 period, no shares were granted to employees (31 March 2023: Nil) and the value of outstanding shares not yet granted to employees as at 31 March 2024 were AED 1,750 thousand (31 December 2023: AED 1,750 thousand).

15 Commitments and contingent liabilities

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

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

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

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

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Letters of credit	**1,292**	1,342
Letters of guarantee	**397,760**	399,344
Capital commitments	**16,629**	4,249
	415,681	404,935

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

16 Tier 1 Capital Instruments

In July 2015, the Group raised financing by way of Shariah compliant Tier 1 Capital Certificates amounting to AED 300 million (Tier 1 sukuks). Issuance of these Capital Certificates was approved by the shareholders of the Company in its Extra Ordinary General Meeting (EGM) in April 2015. The Central Bank of the UAE has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Certificates bear profit at a fixed rate payable semi-annually in arrears. The Capital Certificates are non-cumulative perpetual securities for which there is no fixed redemption date and are callable by the Group subject to certain conditions. Tier 1 Sukuk amounting to AED 23,800 thousand (2023: AED 23,800 thousand) are held by subsidiaries of the Group and, accordingly, eliminated in the condensed consolidated interim 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 ranging from **6.06% to 6.14%** p.a (2023: 6.06% to 6.14% p.a).

In March 2019 the subsidiary of the Group 'Insurance House PJSC' raised tier 1 perpetual bonds amounting to AED 15 million. Issuance of these perpetual bonds was approved by the shareholders of Insurance House PSJC in its 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 (2023: 8.25% p.a).

17 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 period/year end balances in respect of related parties included in the condensed consolidated interim statement of financial position are as follows:

	(Unaudited) 31 March 2024 AED'000	(Audited) 31 December 2023 AED'000
Loans and advances to customers		
To key management staff	**4,800**	105
To members of board of directors	**57,480**	59,984
To other related party	**54,776**	55,695
Customers' deposits		
From other entities under common control	**2,902**	252

17 Related party disclosures (continued)

Terms and conditions of transactions with related parties

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

The significant transactions included in the condensed consolidated interim statement of profit or loss are as follows:

	(Unaudited) 31 March 2024 AED'000	(Unaudited) 31 March 2023 AED'000
Interest and commission income		
From key management staff	**84**	16
From members of board of directors	**622**	510
From others	**700**	-
Interest expense		
To other related parties	**-**	4
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**2,841**	2,724

18. Segment information

For management purposes, the Group is organized into five 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) Islamic financing and investing, which involves one of the Group's subsidiaries principally providing investment, consumer and commercial financing and other related services based on Islamic Sharia's rules and principles.
(iv) Insurance, which involves one of the Group's subsidiaries providing non-life insurance services.
(v) Brokerage, which involves one of the Group's subsidiaries providing brokerage 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.

Information regarding the Group's reportable segments is presented in the following pages:

18 Segment Information (continued)

	Commercial and retail financing AED'000	Investment AED'000	Islamic financing and investing AED'000	Brokerage AED'000	Insurance AED'000	Unallocated AED'000	Total AED'000
31 March 2024 (Unaudited)							
Operating income/(loss)	**13,801**	**14,381**	**(1,812)**	**4,300**	**(6,847)**	**-**	**23,823**
Inter-segment revenues	**18,697**	**(18,697)**	**-**	**-**	**-**	**-**	**-**
Segmental results and profit/(loss) from operations	**904**	**13,287**	**(1,402)**	**1,903**	**(6,847)**	**(16,921)**	**(9,076)**
Segmental assets	**1,891,216**	**677,575**	**19,590**	**326,879**	**206,748**	**-**	**3,122,008**
Segmental liabilities	**1,890,312**	**245,387**	**152,876**	**(5,086)**	**190,381**	**-**	**2,473,870**
31 March 2023 (Unaudited)							
Operating income	25,012	17,712	2,266	3,265	(7,230)	-	41,025
Inter-segment revenues	21,781	(21,781)	-	-	-	-	-
Segmental results and profit / (loss) from operations	19,743	13,272	1,135	884	(8,738)	(18,706)	7,590
Segmental assets	2,011,191	445,739	22,034	340,062	390,138	-	3,209,164
Segmental liabilities	1,991,448	161,796	33,837	18,728	324,209	-	2,530,018
31 December 2023 *(Audited)*							
Segmental assets	1,875,670	297,424	14,140	361,073	217,215	-	2,765,522
Segmental liabilities	1,841,005	(115,790)	154,797	30,357	193,227	-	2,103,596

19 Fair value measurement

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 March 2024:

	Date of valuation	Level 1	Level 2	Level 3	Total
		AED'000	AED'000	AED'000	AED'000
Assets measured at fair value					
Investment properties	31 December 2023	-	-	**30,942**	**30,942**
At fair value through profit or loss					
Quoted equities	31 March 2024	**40,680**	-	-	**40,680**
At fair value through other comprehensive income					
Quoted equities	31 March 2024	**70,631**	-	-	**70,631**
Unquoted equities	31 December 2023	-	-	**33,844**	**33,844**
Investment in managed funds	31 December 2023	-	**611**	-	**611**
		70,631	**611**	**33,844**	**105,086**

20 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:

	Date of valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value					
Investment properties	31 December 2023	-	-	30,942	30,942
At fair value through profit or loss					
Quoted equities	31 December 2023	20,972	-	-	20,972
		20,972	-	-	20,972
At fair value through other comprehensive income					
Quoted equities	31 December 2023	61,709	11,294	-	73,003
Quoted debt securities	31 December 2023	-	-	-	-
Unquoted equities	31 December 2023	-	-	32,844	32,844
Investment in managed funds	31 December 2023	-	611	-	611
		61,709	11,905	32,844	106,458

The following is a description of the determination of fair value for assets which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the assets.

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.

20 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 equities, companies and private equity funds. Listed equity 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 companies, the financial statements provide the valuations of these investments which are arrived at primarily by discounted cash flow analysis. Fair value of the unquoted ordinary shares has been estimated using DCF model and 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

Transfers between categories

During the period, 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	
	AED'000	AED'000
	2024	2023
Balance at 1 January	**32,844**	33,849
Profit/(Loss) for the period/year	**1,000**	(1,005)
Balance at 31 March / 31 December	**33,844**	32,844

Notes to the condensed consolidated interim financial information (continued)
For the three-month period ended 31 March 2024

21 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 condensed consolidated interim financial information if disposed unfavorably.

22 Taxation

During the period, the Group has not charged the provision of tax as the Group incurred losses. (31 March 2023: Nil).

23 Post-reporting date events

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

24 Approval of condensed interim financial information

The condensed consolidated interim financial information was approved and authorized for issue by the Board of Directors on 14 May 2024.