Finance House P.J.S.C.

Condensed consolidated interim financial statements

31 March 2021

Principal business address:
P O Box 7878
Abu Dhabi
United Arab Emirates

Finance House P.J.S.C.

Condensed consolidated interim financial statements

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Statements

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

Introduction

We have reviewed the accompanying 31 March 2021 condensed consolidated interim financial statements of Finance House P.J.S.C. ("the Company"), and its subsidiaries (together referred to as "the Group") which comprise:

- the condensed consolidated interim statement of financial position as at 31 March 2021;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2021;
- the condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2021;
- the condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2021; and
- notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed interim 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 condensed interim financial statements 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2021 condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates

Date: 6 May 2021

Finance House P.J.S.C.

Condensed consolidated interim statement of financial position
As at

	Note	*(Unaudited)* 31 March 2021 AED'000	*(Audited)* 31 December 2020 AED'000
Assets			
Cash balances	*8*	**9,287**	6,717
Due from banks	*8*	**677,984**	501,511
Investment securities	*9*	**266,576**	247,674
Loans and advances	*10*	**2,090,087**	2,168,353
Islamic financing and investing assets	*11*	**56,310**	60,381
Investment in associates		**89,468**	89,788
Interest receivable and other assets		**109,081**	112,849
Insurance receivables and contract assets		**160,957**	111,774
Property, fixtures and equipment		**103,173**	94,147
Intangibles		**6,705**	6,705
Investment properties		**3,500**	7,925
Total assets		**3,573,128**	3,407,824
Liabilities and Equity			
Liabilities			
Customers' deposits and margin accounts	*12*	**2,012,739**	1,923,959
Due to banks and other financial institutions	*8*	**57,069**	54,577
Short term borrowings		**308,710**	298,160
Medium term loan		**25,000**	25,000
Unearned premiums		**110,043**	79,368
Gross claims outstanding		**58,928**	57,196
Lease liabilities		**2,453**	3,461
Interest payable and other liabilities		**191,443**	181,442
Provision for employees' end of service benefits		**14,970**	14,925
Total liabilities		**2,781,355**	2,638,088

Finance House P.J.S.C.

Condensed consolidated interim statement of financial position *(continued)*

As at

	Note	***(Unaudited)*** **31 March 2021 AED'000**	*(Audited)* 31 December 2020 AED'000
Equity			
Share capital	*13*	**310,050**	310,050
Treasury shares	*14*	**(21,402)**	(21,402)
Employees' share-based payment scheme	*15*	**(1,750)**	(1,750)
Statutory reserve		**150,123**	150,123
Fair value reserve		**(59,959)**	(76,998)
Retained earnings		**19,746**	19,324
Tier 1 Sukuk	*17*	**279,850**	279,850
Tier 1 Bonds	*17*	**15,000**	15,000
Proposed directors' remuneration		**1,957**	1,957
		693,615	676,154
Non-controlling interests		**98,158**	93,582
Total equity		**791,773**	769,736
Total liabilities and equity		**3,573,128**	3,407,824
Commitments and contingent liabilities	*16*	**705,938**	764,359

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

These condensed consolidated interim financial statements were authorized and approved for issue by the Board of Directors on 6th May 2021 and signed on their behalf by:

Mr. Mohammed Alqubaisi
Vice Chairman

Mr. T.K. Raman
Chief Executive Officer

The notes on pages 10 to 44 are an integral part of this condensed consolidated interim financial statements.

Finance House P.J.S.C.

Condensed consolidated interim statement of profit or loss and other comprehensive income (unaudited)

for the period ended 31 March

	Note	2021 AED'000	2020 AED'000
Interest income and income from Islamic financing and investing assets	5	**46,056**	60,653
Interest expense and profit distributable to depositors	5	**(12,093)**	(19,772)
Net interest income and income from Islamic financing and investing assets		**33,963**	40,881
Fee and commission income		**7,793**	10,554
Fee and commission expenses		**(3,332)**	(3,223)
Net fee and commission income		**4,461**	7,331
Net insurance premium earned		**36,895**	52,576
Net insurance claims incurred		**(1,199)**	(1,509)
Net commission paid		**(19,909)**	(37,351)
Other underwriting (expenses) / income		**(4,057)**	1,237
Net insurance income		**11,730**	14,953
Net investment income	6	**9,732**	1,590
Credit impairment loss on loans and advances	10	**(11,585)**	(18,255)
Credit impairment loss on Islamic financing and investing assets	11	**(713)**	(516)
Other operating income		**615**	6,792
Net operating income		**48,203**	52,776
Salaries and employees related expenses		**(25,417)**	(34,484)
Depreciation of property, fixtures and equipment		**(3,717)**	(3,701)
Interest on Lease Liabilities		**(20)**	-
General and administrative expenses		**(11,220)**	(13,047)
Operating profit for the period		**7,829**	1,544
Share of (loss) from associates		**(320)**	(339)
Profit for the period		**7,509**	1,205
Attributable to:			
Equity holders of the parent		**4,926**	(595)
Non-controlling interests		**2,583**	1,800
		7,509	1,205
Basic and diluted earnings per share attributable to ordinary shares (AED)	7	**0.00**	(0.02)

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Finance House P.J.S.C.

Condensed consolidated interim statement of profit or loss and other comprehensive income (unaudited) *(continued)*

for the period ended 31 March

	2021 **AED'000**	2020 AED'000
Profit for the period	**7,509**	1,205
Other comprehensive income:		
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	**19,032**	(27,183)
Gain / (loss) on disposal of financial assets carried at fair value through other comprehensive income	**63**	475
Other comprehensive income / (loss) for the period	**19,095**	(26,708)
Total comprehensive income / (loss) for the period	**26,604**	(25,503)
Profit Attributable to:		
Equity holders of the parent	**4,926**	(595)
Non-controlling interests	**2,583**	1,800
	7,509	1,205
Total comprehensive income attributable to:		
Equity holders of the parent	**22,028**	(21,718)
Non-controlling interests	**4,576**	(3,785)
	26,604	(25,503)

The notes on pages 10 to 44 are an integral part of this condensed consolidated interim financial statements.

Finance House P.J.S.C.

Condensed consolidated interim statement of changes in equity (unaudited)

For the period ended 31 March 2021

	Share Capital AED'000	Treasury shares AED'000	Employees' share-based payment scheme AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Proposed directors' remuneration AED'000	Tier 1 Sukuk AED'000	Tier 1 Bonds AED'000	Attributable to shareholders of the parent AED'000	Non controlling interest AED'000	Total AED'000
Balance at 1 January 2020	310,050	(21,402)	(1,750)	148,726	(41,525)	15,980	1,223	280,400	15,000	706,702	87,782	794,484
Profit on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	(475)	475	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	(595)	-	-	-	(595)	1,800	1,205
Other Comprehensive Income												
Net changes in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(21,123)	-	-	-	-	(21,123)	(5,585)	(26,708)
Total other comprehensive income for the year	-	-	-	-	(21,123)	(595)	-	-	-	(21,718)	(3,785)	(25,503)
Total comprehensive income	-	-	-	-	(21,123)	(595)	-	-	-	(21,718)	(3,785)	(25,503)
Cash dividend paid	-	-	-	-	-	(2,585)	-	-	-	(2,585)	-	(2,585)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(5,567)	-	-	-	(5,567)	-	(5,567)
Balance at 31 March 2020	310,050	(21,402)	(1,750)	148,726	(63,123)	7,708	1,223	280,400	15,000	676,832	83,997	760,829
Balance at 1 January 2021	**310,050**	**(21,402)**	**(1,750)**	**150,123**	**(76,998)**	**19,324**	**1,957**	**279,850**	**15,000**	**676,154**	**93,582**	**769,736**
Net profit for the period	-	-	-	-	-	**4,926**	-	-	-	**4,926**	**2,583**	**7,509**
Other Comprehensive Income												
Profit on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	**(63)**	**63**	-	-	-	-	-	-
Net changes in fair value of investments carried at fair through other comprehensive income	-	-	-	-	**17,102**	-	-	-	-	**17,102**	**1,993**	**19,095**
Total other comprehensive income for the period	-	-	-	-	**17,102**	**4,926**	-	-	-	**17,102**	**1,993**	**19,095**
Total comprehensive income	-	-	-	-	**17,039**	**4,989**	-	-	-	**22,028**	**4,576**	**26,604**
Tier 1 SUKUK coupon	-	-	-	-	-	**(4,567)**	-	-	-	**(4,567)**	-	**(4,567)**
Balance at 30 March 2021	**310,050**	**(21,402)**	**(1,750)**	**150,123**	**(59,959)**	**19,746**	**1,957**	**279,850**	**15,000**	**693,615**	**98,158**	**791,773**

The notes on pages 10 to 44 are an integral part of this condensed consolidated interim financial statements.

Finance House P.J.S.C.

Condensed consolidated interim statement of cash flows (unaudited)
for the three-months period ended 31 March (Unaudited)

	Note	2021 AED'000	2020 AED'000
Cash flows from operating activities			
Profit for the period		**7,509**	1,205
Adjustments for:			
Depreciation of property, fixtures and equipment		**3,717**	3,701
Share of result of associate		**320**	339
Dividend income from investments		**(5,703)**	(19,133)
Gain on disposal of investments carried at fair value through profit or loss		**390**	148
Net change in fair value of investments carried at fair value through profit or loss		**(3,460)**	17,154
Net impairment loss of loans and advances and Islamic assets		**12,298**	18,771
Provision for employees' end of service benefits		**248**	328
		15,319	22,513
Changes in:			
Due from banks maturing after three months		**1,044**	-
Islamic financing and investing assets		**3,358**	6,043
Loans and advances		**66,681**	166,736
Interest receivable and other assets*		**8,193**	(35,910)
Insurance receivables and contract assets		**(49,183)**	(56,511)
Customers' deposits and margin accounts		**88,780**	(38,087)
Unearned premiums		**30,675**	33,853
Gross claims outstanding		**1,732**	14,598
Interest payable and other liabilities		**10,001**	27,891
Lease liabilities		**(1,008)**	(1,303)
Cash generated from operating activities		**175,592**	139,823
Payment of employees' end of service benefits		**(203)**	(136)
Net cash generated from operating activities		**175,389**	139,687
Cash flows from investing activities			
Purchase of investments carried at fair value through other comprehensive income		**(2,104)**	(5,511)
Proceeds from sale of investments carried at fair value through other comprehensive income		**386**	13,188
Purchase of investments carried at fair value through profit or loss		**-**	(865)
Proceeds from sale of investments carried at fair value through profit or loss		**3,155**	238
Purchase of investments carried at amortised cost		**(1,847)**	(3,673)
Proceeds of investment carried at amortised cost		**3,673**	-
Purchase of property, fixtures and equipment		**(12,743)**	(2,626)
Dividend received		**5,703**	19,133
Net cash (used in) / generated from investing activities		**(3,777)**	19,884

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Condensed consolidated interim statement of cash flows *(continued)*
for the three-months period ended 31 March (Unaudited)

	Note	**2021** **AED'000**	2020 AED'000
Cash flows from financing activities			
Repayments of short-term borrowings		**(50,000)**	(19,666)
Net proceeds medium term loan		**60,550**	110,000
Tier 1 SUKUK coupon paid		**(4,567)**	(5,567)
Cash dividend paid		**-**	(2,585)
Net cash generated from financing activities		**5,983**	82,182
Net increase in cash and cash equivalents		**177,595**	241,753
Cash and cash equivalents at 1 January		**446,607**	496,483
Cash and cash equivalents at 31 March	*8*	**624,202**	738,236

The notes on pages 10 to 44 are an integral part of this condensed consolidated interim financial statements.

* *Interest receivable and other assets includes transfer from investment property amounting to AED 4,425 thousand*

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 (U.A.E.) in accordance with the provisions of the U.A.E. Federal Commercial Companies Law No. (2) of 2015, 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 U.A.E. Central Bank relating to Finance Companies.

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

The Company was established on 13 March 2004 and commenced its operations on 18 July 2004. 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 entity is listed on the Abu Dhabi Securities Exchange (Ticker: FH).

The financial statements of the Company as at and for the period ended 31 March 2021 and year ended 31 December 2020 are available upon request from the Company’s registered address P.O. Box 7878, Abu Dhabi, United Arab Emirates.

On 24 October 2018, management of FH LLC (formerly known as Islamic Finance House) (“the Subsidiary”) submitted an adjustment plan for restructuring the Subsidiary to the Central Bank of UAE. The adjustment plan has been approved by the Board of Directors on the 6th of February 2019 and by the Central Bank of the UAE on 10th October 2019.

2 Basis of preparation

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

This condensed consolidated interim financial statement is prepared in accordance with International Accounting Standard 34: Interim Financial Reporting (“IAS 34”), issued by the International Accounting Standard Board (IASB) and comply with the applicable requirements of the laws in the U.A.E.

This condensed consolidated interim financial statement 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 2020. In addition, results for the period from 1 January 2021 to 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

As required by the Securities and Commodities Authority of the U.A.E. (“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 statements

On 1 April 2015, UAE Federal Law No 2 for Commercial Companies (“UAE Companies Law of 2015”) was issued with effective date 1 July 2015, The Company is in compliance with the applicable sections of UAE Companies Law of 2015 as at the date of these condensed interim financial statements.

2 Basis of preparation *(continued)*

i. New currently effective requirements

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following new IFRSs and amendments as of 1 January 2021:

Description	Effective from
Interest Rate Benchmark Reform – Amendment to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16	1 January 2021

ii. Standards issued but not yet effective

IFRS 17 insurance contracts is applicable to annual reporting periods beginning on or after 01 January 2023. The Group is currently evaluating the impact of this new standard and expects to adopt this new standard on applicable date

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

iii. Use of judgments and estimates

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2020.

Response to COVID 19

The Group has performed an internal analysis to identify potential accounts that are prima-facie eligible for temporary relief from payments of principal and interest (Deferment or Extension) on outstanding loans of Corporate customers under the TESS program. The Group has received deferment requests from customers (Corporate / SME / Retail) due to Covid-19 pandemic stress in the UAE economy. The Group evaluated each such request on its own merit and consider providing relief to the requesting customer subject to additional terms if any, as deemed fit by the concerned operating entity of the Group.

2 Basis of preparation *(continued)*

iii. Use of judgments and estimates *(continued)*

Significant Increase in Credit Risk

The Group has assessed the SICR factors such as:

1. Rescheduling & Restructuring of the facilities
2. Obligor Risk Rating (ORR) migration due to financial deterioration
3. Increase in past dues

Change in Macro Economic Factors

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The management has dynamic forward looking ECL computation methodology based on Macro Economic forecast. There is significant increase in volatility (albeit temporary) in Macro Economic factors due to COVID-19 pandemic situation. The Group is carefully assessing the situation and has noticed that volatility levels have reduced in the recent past.

On 11 March 2020, the World Health Organization ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty and governments and authorities have instigated a host of measures to contain or delay the spread of the virus.

On 27th March 2020, the IASB issued a guidance note, advising that both the assessment of Significant Increase in Credit risk (“SICR”) and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. It is difficult at this time to incorporate the specific effects of COVID-19 and government support measures on a reasonable and supportable basis.

The Central Bank of the UAE (CBUAE) approved and issued the standards of the UAE’s Targeted Economic Support Scheme (TESS); Circular No.: CBUAE/BSD/N/2020/1479 dated 18/03/2020 (The TESS Regulation) to contain the repercussions of the COVID-19 pandemic in the UAE. The TESS regulation is designed to:

1. facilitate the provision of short and medium term relief from the payments of principal and/or interest/profit on outstanding loans and selective rescheduling/ restructuring of loans for all affected private sector corporates, SMEs and individuals;
2. enhance lending capacity of banks, through partial release of existing capital buffers;
3. outline expectations and the actions to be taken under the TESS by all banks and finance companies operating in the UAE.

2 Basis of preparation *(continued)*

iii. Use of judgments and estimates (continued)

Change in Macro-Economic factors *(continued)*

Under the TESS program, CBUAE set-up a "Zero Cost Facility" (ZCF) against eligible collateral. ZCF will be priced at zero interest rate and banks and finance companies are expected to pass on the benefits of such a no cost liquidity facility, at the minimum, to their clients who have been identified to be eligible as per these Standards. The "Eligible Collateral" includes the following

i. Certificate of Deposit, both conventional and Islamic (CDs or ICD's) issued by CBUAE; and
ii. Interim Marginal Lending Facility (IMLF) and Collateralized Murabaha Facility (CMF).

Finance House has not obtained this facility under TESS program as at 31 March 2021.

Group 1: are the customers who are not expected to face substantial change in their creditworthiness beyond liquidity issue caused by the COVID-19 crisis.

This sub segment includes borrowers for which the credit deterioration is not considered significant enough to trigger a SICR. Such customers are expected to face short term liquidity issues caused by business disruption/salary cuts and are expected to recover rapidly once the economic environment stabilizes. These accounts are not considered to have sufficient deterioration in credit quality to trigger a stage migration and the staging may be retained at the same level.

Group 2: customers that are significantly expected to be impacted by COVID-19.

This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. Stage migration, i.e. Stage 1 to Stage 2 migration should take place. Due to the possibility of later economic rebound, these clients are not expected to migrate to IFRS 9 stage 3, accepting cases but in exceptional circumstances such as bankruptcy, fraud, skip cases

The Grouping of the client is based on a combination of quantitative analysis and judgmental approach based on subject matter expert views within the Group/Organization.

2 Basis of preparation *(continued)*

iii. Use of judgments and estimates *(continued)*

COVID-19 and Expected Credit Loss (ECL)

Clients benefiting from deferrals under Target Economic Support Scheme (TESS) & non-TESS by Segment (continued)

Table 1: Deferrals information as at 31 March 2021:

Segment	Stage	Group	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Wholesale banking	Stage 1	Group 1	**5,130**	**38,907**	**17**
		Group 2	**-**	**-**	**-**
	Stage 2	Group 1	**1,552**	**8,889**	**-**
		Group 2	**4,331**	**8,568**	**543**
Total			**11,013**	**56,364**	**560**

Table 2: ECL change (flow) since beginning of year to date.

	Non-credit impaired		Credit impaired	
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Wholesale banking				
ECL allowance as of start of the year	**17**	**543**	**-**	**560**
Others	**-**	**-**	**-**	**-**
ECL allowance as of end of the period	**17**	**543**	**-**	**560**

2. Basis of preparation *(continued)*

iii *Use of judgments and estimates (continued)*

COVID-19 and Expected Credit Loss (ECL) *(continued)*
Clients benefiting from deferrals under Target Economic Support Scheme (TESS) & non-TESS by Segment (continued)

Table 3: Stage migration since beginning of year

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Total Outstanding	AED'000 Impairment allowance	AED'000 Total Outstanding	AED'000 Impairment allowance	AED'000 Total Outstanding	AED'000 Impairment allowance	AED'000 Total Outstanding	AED'000 Impairment allowance
Wholesale banking								
As of 1 January 2021	**38,787**	**17**	**17,535**	**543**	**-**	**-**	**56,322**	**560**
Transfers from stage 1 to stage 2	-	-	-	-	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	-	-	-	-	-	-	-	-
Transfers from stage 3 to stage 2 & 1	-	-	-	-	-	-	-	-
Other movements	120	-	(78)	-	-	-	42	-
As of end of at 31 March 2021	**38,907**	**17**	**17,457**	**543**	**-**	**-**	**56,364**	**560**

There were no stage migrations during the quarter for the Clients benefiting from deferrals under Target Economic Support Scheme (TESS) & non-TESS.

2 Basis of preparation *(continued)*

iii. ***Use of judgments and estimates*** *(continued)*

COVID-19 and Expected Credit Loss (ECL) *(continued)*

The below table shows the movement of Exposure at Default:

Movement of Exposure at Default (EAD)	**AED'000**
Exposure at Default (EAD) as at 1 January 2021	**40,864**
Exposure increase / (decreased) for Commercial loans	**135**
Exposure at Default (EAD) as at 31 March 2021	**40,999**

2 Basis of preparation *(continued)*

iv. Basis of consolidation

The condensed consolidated interim financial statements incorporate the financial statements 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 statements of subsidiaries are included in the condensed consolidated interim financial statement from the date that control commences until the date that control ceases. The details of the Company's subsidiaries and their principal activities are as follows:

Name of subsidiary	Country of incorporation	Ownership interest %		Principal activity
		31 March 2021	31 December 2020	
Finance House L.L.C. (formerly known as Islamic Finance House)	U.A.E.	**100**	100	Financing Services
Insurance House P.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 (formerly known as CAPM)	U.A.E.	**100**	100	Investment and asset management
F.H. Services L.L.C	U.A.E.	**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 Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those in the Group's consolidated financial statements as at and for the year ended 31 December 2020.

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

4 Financial risk management *(continued)*

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 2020.

(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 and 11 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 2021 was AED nil million *(2020: AED 111.3 million)*.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.

(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.

4 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

(iii) ***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 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.

(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 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'. Please refer to note 4.1(c) for a description of how the Group defines default and credit-impaired assets.

- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to following note for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information. The below note includes an explanation of how the Group has incorporated this in its ECL models.

4 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

(iv) ***Expected credit loss measurement***

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

Significant increase in credit risk (SICR)

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:

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 & behavior 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.

4 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

(v) ***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 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.
- 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.

<u>*Measuring ECL – Explanation of inputs, assumptions and estimation techniques*</u>

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the 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.

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)

- 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 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.

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)

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.

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.

4 Financial risk management *(continued)*

(a) Credit risk *(continued)*

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

Credit monitoring (continued)

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.

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 2020.

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 2021			
	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	1,424,726	542,330	513,668	2,480,724
Loss allowance	(12,077)	(48,562)	(329,998)	(390,637)
Carrying amount	**1,412,649**	**493,768**	**183,670**	**2,090,087**
Islamic financing and investing assets – At amortised cost	32,097	10,396	75,399	117,892
Loss allowance	(368)	(436)	(60,778)	(61,582)
Carrying amount	**31,729**	**9,960**	**14,621**	**56,310**

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 2020			
	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	1,522,766	515,139	509,500	2,547,405
Loss allowance	(11,960)	(41,960)	(325,132)	(379,052)
Carrying amount	1,510,806	473,179	184,368	2,168,353
Islamic financing and investing assets – At amortised cost	39,649	14,810	66,791	121,250
Loss allowance	(405)	**(1,332)**	**(59,132)**	**(60,869)**
Carrying amount	39,244	13,478	7,659	60,381

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.

	2021			
	ECL staging			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loans and advances				
Grading 1	859,740	54,887	-	914,627
Grading 2	564,986	487,443	-	1,052,429
Grading 3	-	-	107,670	107,670
Grading 4	-	-	66,208	66,208
Grading 5	-	-	339,790	339,790
	1,424,726	542,330	513,667	2,480,723
Loss allowance	(12,077)	(48,562)	(329,997)	(390,637)
Carrying amount	1,412,649	493,768	183,670	2,090,087
Islamic financing and investing assets				
Grading 1	13,438	300	-	13,738
Grading 2	18,659	10,096	-	28,755
Grading 3	-	-	8,270	8,270
Grading 4	-	-	10,691	10,691
Grading 5	-	-	56,438	56,438
	32,097	10,396	75,399	117,892
Loss allowance	(368)	(436)	(60,778)	(61,582)
Carrying amount	31,729	9,960	14,621	56,310

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.

	2020			
	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	1,480,180	351,134	-	1,831,314
Grading 2	42,586	164,005	-	206,591
Grading 3	-	-	104,984	104,984
Grading 4	-	-	69,324	69,324
Grading 5	-	-	335,192	335,192
	1,522,766	515,139	509,500	2,547,405
Loss allowance	(11,960)	(41,960)	(325,132)	(379,052)
Carrying amount	1,510,806	473,179	184,368	2,168,353
Islamic financing and investing assets				
Grading 1	39,193	7,792	-	46,985
Grading 2	456	7,018	-	7,474
Grading 3	-	-	1,356	1,356
Grading 4	-	-	1,372	1,372
Grading 5	-	-	64,063	64,063
	39,649	14,810	66,791	121,250
Loss allowance	(405)	(1,332)	(59,132)	(60,869)
Carrying amount	39,244	13,478	7,659	60,381

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 2021.

	+1% increase AED'000	**-1% decrease AED'000**
31 March 2021		
Change of 1%	**17,524**	**(16,116)**
Cash flow sensitivity	**17,524**	**(16,116)**
31 March 2020		
Change of 1%	22,861	(22,708)
Cash flow sensitivity	22,861	(22,708)

(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 U.A.E. Dirham and U.S. Dollar. As the U.A.E. Dirham is pegged to the U.S. Dollar, balances in U.S. Dollar are not considered to represent significant currency risk. Exposure to other currencies is insignificant to the overall 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 2021		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	**874**	**(874)**
Dubai Financial Market Index	**831**	**(831)**
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	**6,735**	**(6,735)**
Dubai Financial Market Index	**1,882**	**(1,882)**
Unquoted investments	**2,337**	**(2,337)**
Cash flow sensitivity	**12,659**	**(12,659)**
31 December 2020		
Investments carried at fair value through profit or loss		
Abu Dhabi Securities Market Index	701	(701)
Dubai Financial Market Index	762	(762)
Investments carried at fair value through other comprehensive income		
Abu Dhabi Securities Market Index	5,902	(5,902)
Dubai Financial Market Index	1,839	(1,839)
Unquoted investments	2,337	(2,337)
Cash flow sensitivity	11,541	(11,541)

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 co 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 effected 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 months ended 31 March	
	2021	2020
	AED'000	AED'000
Loans and advances	**43,311**	55,337
Income from Islamic financing and investing assets	**1,137**	2,747
Due from banks	**1,322**	2,057
Income from perpetual investments	**286**	512
Interest income and income from Islamic financing and investing assets	**46,056**	60,653
Customers' deposits and margin accounts	**(8,065)**	(15,944)
Due to banks and other financial institutions	**(3,798)**	(3,792)
Profit distributable to depositors	**(230)**	(36)
Interest expense and profit distributable to depositors	**(12,093)**	(19,772)
Net interest income and income from Islamic financing and investing assets	**33,963**	40,881

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 months ended 31 March	
	2021	2020
	AED'000	AED'000
Net (loss) on disposal of investments carried at fair value through profit or loss	**(390)**	(148)
Change in fair value of investments carried at fair value through profit or loss	**3,460**	(17,154)
Dividends from investments carried at fair value through profit or loss	**959**	1,926
Net profit / (loss) from investments carried at fair value through profit or loss	**4,029**	(15,376)
Dividend income from investments carried at fair value through other comprehensive income	**5,703**	16,966
Net income from investments	**9,732**	1,590

7 Basic and diluted earnings per share

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

	(Unaudited) Three months ended 31 March 2021 AED'000	2020 AED'000
Profit / (Loss) for the period attributable to equity holders of the parent	**4,926**	(595)
Less: Tier 1 Sukuk coupon paid	**(4,257)**	(5,567)
	669	(6,162)
Number of ordinary shares in issue	**310,050**	310,050
Less: Treasury shares	**(9,400)**	(9,400)
Less: Employees' share-based payment scheme	**(1,750)**	(1,750)
	298,900	298,900
Loss per share (AED)	**0.00**	(0.02)

8 Cash and cash equivalents

	(Unaudited) 31 March 2021 AED'000	*(Audited)* 31 December 2020 AED'000
Cash balances		
Cash on hand	**9,287**	6,717
Due from banks		
Placements with banks	**155,081**	166,063
Call accounts	**386,578**	192,005
Current and demand accounts	**55,233**	110,893
Balance with UAE Central Bank	**75,092**	26,550
Restricted cash balances*	**6,000**	6,000
	677,984	501,511
Due from banks and other financial institutions with original maturity more than three months	**-**	(1,044)
Due to banks and other financial institutions with original maturity of more than three months	**(57,069)**	(54,577)
Other restricted cash balances*	**(6,000)**	(6,000)
Net cash and cash equivalents	**624,202**	446,607

* Restricted cash represents deposits with insurance authority amounting to AED 6,000 thousand (2019: AED 6,000 thousand).

9 Investments

	At fair value through other comprehensive income AED'000	At fair value through profit or loss AED'000	At amortised cost AED'000	Total AED'000
31 March 2021				
(Unaudited)				
Equity instruments:				
- Quoted	**181,116**	**34,092**	**-**	**215,208**
- Unquoted	**48,613**	**-**	**-**	**48,613**
Unquoted investment in managed funds	**908**	**-**	**1,847**	**2,755**
	230,637	**34,092**	**1,847**	**266,576**
Within UAE	**217,797**	**34,092**	**1,847**	**253,736**
Outside UAE	**12,840**	**-**	**-**	**12,840**
	230,637	**34,092**	**1,847**	**266,576**
31 December 2020				
(Audited)				
Equity instruments:				
- Quoted	163,189	29,305	-	192,494
- Unquoted	50,454	-	-	50,454
Unquoted investment in managed funds	1,053	-	3,673	4,726
	214,696	29,305	3,673	247,674
Within UAE	198,398	29,305	-	227,703
Outside UAE	16,298	-	3,673	19,971
	214,696	29,305	3,673	247,674

10 Loans and advances

	(Unaudited) **31 March 2021 AED'000**	*(Audited)* 31 December 2020 AED'000
Commercial loans		
Commercial overdraft	**408,035**	403,369
Trust Receipts	**21,993**	23,649
Bills and discounts	**36,576**	37,352
Mezzanine finance	**11,934**	11,934
Advances against documents under LC	**322**	337
Auto loans	**1,378**	1,677
Clean facility	**1,180**	1,180
Other commercial advances	**1,509,884**	1,572,215
	1,991,302	2,051,713
Retail finance		
Car loans	**3,076**	3,076
Executive Finance	**119,378**	163,136
Staff loans	**5,930**	4,082
Credit card advances and settlement plans	**260,489**	264,665
Sulfah- National Personnel Loan	**43,272**	2,109
Payday loans	**34,736**	35,817
SME loans	**21,508**	21,751
Others	**1,033**	1,056
	489,422	495,692
Gross loans and advances	**2,480,724**	2,547,405
Less: Allowance for impairment	**(390,637)**	(379,052)
Loans and advances	**2,090,087**	2,168,353

The movement in the allowance for impairment during the period is as follows:

	(Unaudited) **31 March 2021 AED'000**	*(Unaudited)* 31 March 2020 AED'000
Opening Balance	**379,052**	416,170
Impairment charges for the period	**11,585**	18,255
Reversal of no longer required impairment charges	**-**	(14,644)
Closing Balance	**390,637**	419,761

The allowance for impairment includes a specific provision of AED 330 million (*31 December 2020 AED 325.1 million)* for stage 3 loans of the Group.

11 Islamic financing and investing assets

	(Unaudited) **31 March 2021 AED'000**	*(Audited)* 31 December 2020 AED'000
Commodity Murabaha	**71,960**	74,993
Covered card and drawings	**34,495**	34,575
Purchase and lease back	**7,495**	7,776
Ijarah	**919**	919
Others	**3,023**	2,987
Gross Islamic financing and investing assets	**117,892**	121,250
Less: Allowance for impairment	**(61,582)**	(60,869)
Islamic financing and investing assets	**56,310**	60,381

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

	(Unaudited) **31 March 2021 AED'000**	*(Unaudited)* 31 March 2020 AED'000
Opening Balance	**60,869**	60,941
Charge for the period / year	**713**	516
Closing Balance	**61,582**	61,457

The Allowance for impairment include a specific provision of AED 60.8 million (*31 December 2020 AED 59.0 million)* for stage 3 Islamic financing and investing assets of the Group.

12 Customers' deposits and margin accounts

	(Unaudited) **31 March 2021 AED'000**	*(Audited)* 31 December 2020 AED'000
Call and demand deposits	**409,994**	224,225
Time deposits	**1,261,396**	1,338,130
Wakala deposits	**29,418**	16,721
	1,700,808	1,579,076
Margin accounts	**311,931**	344,883
	2,012,739	1,923,959

12 Customers' deposits and margin accounts *(continued)*

Analysis of customers' deposits by sector is as follows**:**

	(Unaudited) **31 March 2020 AED'000**	*(Audited)* 31 December 2020 AED'000
Government	**644,203**	589,590
Corporate	**1,368,536**	1,334,369
	2,012,739	1,923,959

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 Nil to 4.25% p.a (2020: Nil to 4.25% p.a).

13 Share capital

	(Unaudited) **31 March 2021 AED'000**	*(Audited)* 31 December 2020 AED'000
310.05 million shares (2020: 310.05 million shares) of AED 1 each (2020: AED 1 each)	**310,050**	310,050

14 Treasury shares

Treasury shares represent the cost of 9,400 thousand shares of the Company held by the Company and a subsidiary as at 31 March 2021 (2020: 9,400 thousand shares).

15 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 and the value of outstanding shares not yet granted to employees as at 31 March 2021 were AED 1,750 thousand *(2020: AED 1,750 thousand)*.

16 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 2021 AED'000**	*(Audited)* 31 December 2020 AED'000
Letters of credit	**2,857**	3,098
Letters of guarantee	**698,632**	756,759
Capital commitments	**4,449**	4,502
	705,938	764,359

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

17 Tier 1 Capital Instruments

In July 2015, the Company raised financing by way of Shari'a 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 UAE Central Bank 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 Company subject to certain conditions. Tier 1 Sukuk amounting to AED 20,150 thousand (2020: AED 20,150 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 ranging from 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 a fixed coupon 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 rate of 8.25% p.a.

18 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 2021 AED'000**	*(Audited)* 31 December 2020 AED'000
Loans and advances		
Key management staff	**2,852**	697
Members of board of directors	**42,987**	53,236
Customers' deposits		
other entities under common control	**5,727**	5,650

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 income statement are as follows:

	(Unaudited) **31 March 2021 AED'000**	*(Unaudited)* 31 March 2020 AED'000
Interest and commission income		
From key management staff	**20**	9
From members of board of directors	**647**	865
Interest expense		
To others	**10**	51
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**3,354**	3,930

19 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 below:

19 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 2021 *(Unaudited)*							
Operating income	**27,829**	**1,548**	**1,173**	**3,606**	**14,047**	**-**	**48,203**
Inter-segment revenues	**15,630**	**(15,630)**	**-**	**-**	**-**	**-**	**-**
Segmental results and profit from operations	**3,488**	**14,684**	**99**	**1,341**	**4,009**	**(16,112)**	**7,509**
Segmental assets	**1,920,386**	**344,267**	**635,988**	**296,275**	**376,212**	**-**	**3,573,128**
Segmental liabilities	**1,916,898**	**364,106**	**61,391**	**210,155**	**228,805**	**-**	**2,781,355**
31 March 2020 *(Unaudited)*							
Operating income	39,380	(6,068)	2,922	2,261	14,281	-	52,776
Inter-segment revenues	21,321	(21,321)	-	-	-	-	-
Segmental results and profit / (loss) from operations	681	12,660	1,364	305	3,141	(16,946)	1,205
Segmental assets	2,177,000	1,116,732	149,094	192,088	379,728	-	4,014,642
Segmental liabilities	2,176,319	650,991	59,655	110,383	256,465	-	3,253,813
31 December 2020 *(Audited)*							
Segmental assets	2,009,721	137,269	632,238	292,743	335,853	-	3,407,824
Segmental liabilities	2,010,707	166,086	57,740	207,964	195,591	-	2,638,088

20 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 2021:

	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	26 Dec 2019	**-**	**-**	**3,500**	**3,500**
At fair value through profit or loss					
Quoted equities	31 March 2021	**34,092**	**-**	**-**	**34,092**
At fair value through other comprehensive income					
Quoted equities	31 March 2021	**181,116**	**-**	**-**	**181,116**
Unquoted equities	31 March 2021	**-**	**8,056**	**40,557**	**48,613**
Investment in managed funds	31 March 2021	**-**	**908**	**-**	**908**
		181,116	**8,964**	**40,557**	**230,637**
Assets for which fair value is disclosed					
Investment carried at amortised cost	31 March 2021	**-**	-	**1,847**	**1,847**

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 2020:

	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	26 December 2019	-	-	7,925	7,925
At fair value through profit or loss					
Quoted equities	31 December 2020	29,305	-	-	29,305
At fair value through other comprehensive income					
Quoted equities	31 December 2020	163,189	-	-	163,189
Unquoted equities	31 December 2020	-	8,056	42,398	50,454
Investment in managed funds	31 December 2020	-	1,053	-	1,053
		163,189	9,109	42,398	214,696

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.

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.

20 Fair value measurement *(continued)*

Investments carried at fair value through other comprehensive income *(continued)*

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

	Valuation technique	**Significant unobservable inputs valuation**	**Range (Weighted average)**	**Sensitivity of the input to fair value**
Unquoted equities	Price Earning Multiple Valuation Basis	PE Multiple	9– 11	Increase (decrease) in the PE Multiples by 1 would result in increase (decrease) in fair value by AED 4 million

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 2021	Unquoted equities at fair value through other comprehensive income AED'000 2020
Balance at 1 January	**42,398**	41,772
(Loss) in OCI	-	(3,089)
Purchases	-	3,715
Disposals	**(1,841)**	-
Balance at 31 March / 31 December	**40,557**	42,389

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.