

Finance House P.J.S.C.

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

31 MARCH 2014 (UNAUDITED)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF FINANCE HOUSE P.J.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Finance House P.J.S.C (the “Company”) and its subsidiaries (the “Group”) as of 31 March 2014, comprising of the interim consolidated statement of financial position as at 31 March 2014 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three month period then ended, and explanatory information. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with 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.

Conclusion

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

Ernst & young

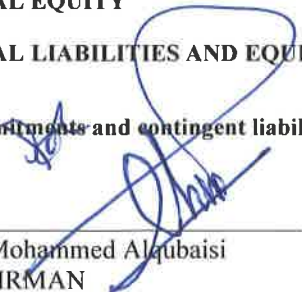

Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

23 April 2014
Abu Dhabi

Finance House P.J.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2014 (unaudited)

		31 March	<i>(Audited)</i> 31 December
		2014	2013
	<i>Notes</i>	AED'000	AED'000
ASSETS			
Cash balances	6	7,415	9,497
Due from banks	6	931,600	1,093,081
Investments carried at fair value through other comprehensive income	7	280,974	258,240
Investments carried at fair value through profit or loss	7	161,449	201,355
Investments carried at amortised cost	7	273,471	284,485
Loans and advances, net	8.1	1,530,031	1,478,401
Islamic financing and investing assets	8.2	118,293	100,442
Investment in an associate		29,999	30,422
Statutory deposit		6,000	6,000
Property, fixtures and equipment		294,014	288,082
Intangibles		14,878	15,596
Investment property		81,200	81,200
Interest receivable and other assets		<u>251,032</u>	<u>269,409</u>
TOTAL ASSETS		<u>3,980,356</u>	<u>4,116,210</u>
LIABILITIES			
Customers' deposits	9	2,047,171	2,178,142
Due to banks	6	216,775	207,528
Interest payable and other liabilities		888,479	864,645
Provision for employees' end of service benefits		8,643	7,882
Non-convertible sukuk	10	<u>129,000</u>	<u>129,000</u>
TOTAL LIABILITIES		<u>3,290,068</u>	<u>3,387,197</u>
EQUITY			
Share capital	11	302,500	302,500
Treasury shares	12	(7,544)	(7,213)
Employees' share-based payment scheme	13	(1,750)	(1,750)
Statutory reserve		123,797	123,797
Revaluation reserve		18,962	18,962
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		(19,833)	(25,336)
Retained earnings		129,556	171,461
Proposed directors' remuneration		-	5,404
		<u>545,688</u>	<u>587,825</u>
Non-controlling interests		<u>144,600</u>	<u>141,188</u>
TOTAL EQUITY		<u>690,288</u>	<u>729,013</u>
TOTAL LIABILITIES AND EQUITY		<u>3,980,356</u>	<u>4,116,210</u>
Commitments and contingent liabilities	14	<u>1,275,570</u>	<u>1,274,622</u>
			
Mr. Mohammed Alqubaisi CHAIRMAN		Mr. Hamid Taylor GENERAL MANAGER	

The attached notes 1 to 19 form part of these interim condensed consolidated financial statements.

Finance House P.J.S.C.

INTERIM CONSOLIDATED INCOME STATEMENT

For the three month period ended 31 March 2014 (unaudited)

	<i>Notes</i>	<i>31 March 2014 AED'000</i>	<i>31 March 2013 AED'000</i>
Interest income and income from Islamic financing and investing assets	3	42,237	50,634
Interest expense and profit distributable to depositors	3	<u>(12,377)</u>	<u>(13,405)</u>
Net interest income and income from Islamic financing and investing assets	3	29,860	37,229
Net fee and commission income		15,525	9,040
Net contract loss		(1,951)	(976)
Net insurance income		647	4,793
Profit distributable to sukuk holders		(2,016)	(2,028)
Net income from investments	4	47,178	11,011
Net income from investment property		1,892	1,897
Share of results of associates, net		(423)	(1,223)
Other operating income, net		<u>492</u>	<u>396</u>
Total operating income		<u>91,204</u>	<u>60,139</u>
Salaries and employees related expenses		(24,695)	(18,900)
Depreciation of property, fixtures and equipment		(1,207)	(1,114)
Amortization of intangibles		(718)	-
General and administrative expenses		(15,891)	(9,381)
Allowance for impairment of loans and advances, net	8.1	(11,942)	(4,596)
Allowance for impairment of Islamic financing and investing assets	8.2	<u>(1,237)</u>	<u>(340)</u>
Total operating expenses and allowances		<u>(55,690)</u>	<u>(34,331)</u>
PROFIT FOR THE PERIOD		<u>35,514</u>	<u>25,808</u>
Attributable to:			
Equity holders of the parent		32,468	23,897
Non-controlling interests		<u>3,046</u>	<u>1,911</u>
		<u>35,514</u>	<u>25,808</u>
Basic and diluted earnings per share attributable to ordinary shares (AED)	5	<u>0.11</u>	<u>0.08</u>

The attached notes 1 to 19 form part of these interim condensed consolidated financial statements.

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Finance House P.J.S.C.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three month period ended 31 March 2014 (unaudited)

	<i>31 March 2014 AED'000</i>	<i>31 March 2013 AED'000</i>
Profit for the period	35,514	25,808
Other comprehensive income:		
Items that will not be reclassified to consolidated income statement:		
Net gain on financial assets measured at fair value through other comprehensive income	7,121	5,665
Directors' remuneration paid	<u>(5,404)</u>	<u>(4,578)</u>
	1,717	1,087
Items that may be reclassified subsequently to consolidated income statement	<u>-</u>	<u>-</u>
Other comprehensive income for the period	<u>1,717</u>	<u>1,087</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>37,231</u>	<u>26,895</u>
<i>Attributable to:</i>		
Equity holders of the parent	33,819	24,781
Non-controlling interests	<u>3,412</u>	<u>2,114</u>
	<u>37,231</u>	<u>26,895</u>

The attached notes 1 to 19 form part of these interim condensed consolidated financial statements.



Finance House P.J.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three month period ended 31 March 2014 (unaudited)

	Share capital AED '000	Treasury shares AED '000	Employees' share-based payment scheme AED '000	Statutory reserve AED '000	Revaluation reserve AED '000	Cumulative changes in fair value AED '000	Retained earnings AED '000	Proposed directors' remuneration AED '000	Attributable to shareholders of the parent company AED '000	Non controlling interest AED '000	Total AED '000
Balance at 1 January 2013	302,500	(4,689)	(1,750)	116,112	18,962	(66,788)	149,355	4,578	518,280	132,778	651,058
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	2,651	(2,681)	-	(30)	30	-
Profit for the period	-	-	-	-	-	-	23,897	-	23,897	1,911	25,808
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	5,462	-	-	5,462	203	5,665
Directors' remuneration paid	-	-	-	-	-	-	-	(4,578)	(4,578)	-	(4,578)
Total comprehensive income (expense) for the period	-	-	-	-	-	5,462	23,897	(4,578)	24,781	2,114	26,895
Cash dividend	-	-	-	-	-	-	(36,300)	-	(36,300)	-	(36,300)
Purchase of treasury shares	-	(120)	-	-	-	-	-	-	(120)	-	(120)
Balance at 31 March 2013	302,500	(4,809)	(1,750)	116,112	18,962	(58,675)	134,271	-	506,611	134,922	641,533
Balance at 1 January 2014	302,500	(7,213)	(1,750)	123,797	18,962	(25,336)	171,461	5,404	587,825	141,188	729,013
Profit on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	(1,252)	1,252	-	-	-	-
Profit for the period	-	-	-	-	-	-	32,468	-	32,468	3,046	35,514
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	6,755	-	-	6,755	366	7,121
Directors' remuneration paid	-	-	-	-	-	-	-	(5,404)	(5,404)	-	(5,404)
Total comprehensive income (expense) for the period	-	-	-	-	-	6,755	32,468	(5,404)	33,819	3,412	37,231
Cash dividend	-	-	-	-	-	-	(75,625)	-	(75,625)	-	(75,625)
Purchase of treasury shares	-	(331)	-	-	-	-	-	-	(331)	-	(331)
Balance at 31 March 2014	302,500	(7,544)	(1,750)	123,797	18,962	(19,833)	129,556	-	545,688	144,600	690,288

The attached notes 1 to 19 form part of these interim condensed consolidated financial statements.

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Finance House P.J.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month period ended 31 March 2014 (unaudited)

	Notes	31 March 2014 AED'000	31 March 2013 AED'000
OPERATING ACTIVITIES			
Profit for the period		35,514	25,808
Non cash adjustments for:			
Depreciation of property, fixtures and equipment		1,207	1,114
Amortization of intangible asset		718	-
Loss on disposal of investments carried at amortised cost	4	441	-
Share of result of associates, net		423	1,223
Dividend income from investments	4	(5,874)	(6,012)
Gain on disposal of investments carried at fair value through profit or loss	4	(35,258)	(3,119)
Unrealised gain on investments carried at fair value through profit or loss	4	(6,487)	(1,880)
Allowance for impairment of loans and advances	8.1	11,942	4,596
Allowance for impairment of Islamic financing and investing assets	8.2	1,237	340
Net movement in provision for employees' end of service benefits		<u>761</u>	<u>220</u>
		4,624	22,290
Working capital adjustments:			
Decrease in due from banks maturing after three months		88,100	47,370
(Increase) decrease in Islamic financing and investing assets		(19,088)	1,039
Increase in loans and advances		(63,572)	(67,304)
Decrease (increase) in interest receivable and other assets		18,377	(6,902)
Decrease in term loans		-	(228,831)
Increase in due to banks maturing after three months		-	312,678
Decrease in customers' deposits		(130,971)	(105,588)
(Decrease) increase in interest payable and other liabilities		<u>(51,791)</u>	<u>14,288</u>
Net cash used in operating activities		<u>(154,321)</u>	<u>(10,960)</u>
INVESTING ACTIVITIES			
Purchase of investments carried at fair value through other comprehensive income		(21,856)	-
Proceeds from sale of investments carried at fair value through other comprehensive income		6,243	23,819
Purchase of investments carried at fair value through profit or loss		(10,905)	(289,024)
Proceeds from sale investments carried at fair value through profit or loss		92,556	42,896
Proceeds from sale of investments carried at amortised cost		10,573	-
Addition to investment property		-	(323)
Purchase of property, fixtures and equipment		(7,139)	(10,756)
Dividend received		<u>5,874</u>	<u>6,012</u>
Net cash from (used in) investing activities		<u>75,346</u>	<u>(227,376)</u>
FINANCING ACTIVITIES			
Directors' remuneration paid		(5,404)	(4,578)
Non-convertible sukuk		-	1,200
Purchase of treasury shares		<u>(331)</u>	<u>(120)</u>
Net cash used in financing activities		<u>(5,735)</u>	<u>(3,498)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(84,710)	(241,834)
Cash and cash equivalents at 1 January		<u>816,950</u>	<u>599,074</u>
CASH AND CASH EQUIVALENTS AT 31 MARCH	6	<u>732,240</u>	<u>357,240</u>

The attached notes 1 to 19 form part of these interim condensed consolidated financial statements.

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Finance House P.J.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2014 (unaudited)

1 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. (8) of 1984 (as amended), the U.A.E. Central Bank, the Monetary System and Organization of Banking Law No. (10) of 1980 and under authority of resolutions of the Board of Directors of the U.A.E. Central Bank relating to Finance Companies.

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

The interim condensed consolidated financial statements of the Group for the three month period ended 31 March 2014 were authorised for issue by Board of Directors on 23 April 2014.

2.1 BASIS OF PREPARATION

Statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting” issued by the International Accounting Standards Board and also comply with the applicable requirements of the laws in the U.A.E.

Accounting convention

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are carried at fair value.

The interim condensed consolidated financial statements are presented in U.A.E. Dirham (AED) which is the functional currency of the Group. All values are rounded to the nearest thousand (AED ‘000), except otherwise indicated.

Basis of consolidation

The accompanying interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together, the “Group”). 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 2014	31 December 2013	
Third Vision Investment L.L.C.	U.A.E.	100	100	Management
Finance House Holding L.L.C.	U.A.E.	100	100	Investment and development
National Project House L.L.C.	U.A.E.	100	100	Construction
Benyan Development Company L.L.C.	U.A.E.	100	100	Construction
Emirates National Electromechanical L.L.C.	U.A.E.	100	100	Electromechanical contracting
FH Capital Limited (D.I.F.C.)	U.A.E.	100	100	Investment and asset management
Finance House Sukuk Company 1	Cayman Islands	100	100	Sukuk issuance
Islamic Finance House P.J.S.C.	U.A.E.	47.83	47.83	Islamic financing services
Insurance House P.S.C.	U.A.E.	44.38	44.38	Insurance
Finance House Securities Co L.L.C.	U.A.E.	65	65	Brokerage
CAPM Investment P.J.S	U.A.E.	100	100	Investment and asset management

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2014 (unaudited)

2.2 ACCOUNTING POLICIES

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2013.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013. In addition, results for the three month period ended 31 March 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the following new standards and amendments to standards effective for the annual periods beginning on or after 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the financial position or performance of the Group.

Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the financial position or performance of the Group.

Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments have no impact on the financial statements of the Group for the period.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. These amendments have no impact on the financial position or performance of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2014 (unaudited)

3 NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	<i>Three month period ended 31 March 2014 AED'000</i>	<i>Three month period ended 31 March 2013 AED'000</i>
Due from banks	3,492	3,971
Loans and advances	32,898	40,287
Income from Islamic financing and investing assets	2,598	2,210
Others	<u>3,249</u>	<u>4,166</u>
Interest income and income from Islamic financing and investing assets	<u>42,237</u>	<u>50,634</u>
Customer deposits	(10,657)	(10,930)
Profit distributable to depositors	(630)	(677)
Due to banks	<u>(1,090)</u>	<u>(1,798)</u>
Interest expense and profit distributable to depositors	<u>(12,377)</u>	<u>(13,405)</u>
Net interest income and income from Islamic financing and investing assets	<u>29,860</u>	<u>37,229</u>

No interest income is recognised on impaired loans and advances.

4 NET INCOME FROM INVESTMENTS

	<i>Three month period ended 31 March 2014 AED'000</i>	<i>Three month period ended 31 March 2013 AED'000</i>
Gain on disposal of investments carried at fair value through profit or loss	35,258	3,119
Unrealised gain on investments carried at fair value through profit or loss	6,487	1,880
Dividends from investments carried at fair value through profit or loss	<u>1,024</u>	<u>1,861</u>
Net income from investments carried at fair value through profit or loss	42,769	6,860
Dividend income from investments carried at fair value through other comprehensive income	4,850	4,151
Loss on disposal of investments carried at amortised cost	<u>(441)</u>	<u>-</u>
Net income from investments	<u>47,178</u>	<u>11,011</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2014 (unaudited)

5 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. As of 31 March 2014, the Company has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.

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

	<i>31 March 2014</i>	<i>31 March 2013</i>
Profit for the period attributable to equity holders of the parent (AED '000)	<u>32,468</u>	<u>23,897</u>
Number of ordinary shares in issue ('000)	302,500	302,500
Less: Treasury shares ('000)	(2,135)	(1,254)
Less: Employees' share-based payment scheme ('000)	<u>(1,750)</u>	<u>(1,750)</u>
	<u>298,615</u>	<u>299,496</u>
Earnings per share (AED)	<u>0.11</u>	<u>0.08</u>

6 CASH AND CASH EQUIVALENTS

	<i>31 March 2014 AED'000</i>	<i>31 March 2013 AED'000</i>
Current and demand accounts	102,899	36,137
Fixed placements	755,000	468,019
Wakala deposits with banks	13,100	-
Call accounts	<u>60,601</u>	<u>82,162</u>
Due from banks	931,600	586,318
Cash balances	7,415	6,864
Due to banks with original maturity of less than three months	(76,775)	(4,923)
Due from banks with original maturity of more than three months	<u>(130,000)</u>	<u>(231,019)</u>
Net cash and cash equivalents	<u>732,240</u>	<u>357,240</u>

Fixed deposits due from banks of AED 130,000 thousand (31 March 2013: AED 231,019 thousand) and due to banks of AED 140,000 thousand (31 March 2013: AED 418,096 thousand) are due to mature after three months from the date of placement and are not included in cash and cash equivalents.

Finance House P.J.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2014 (unaudited)

7 INVESTMENTS

	<i>At fair value through OCI AED '000</i>	<i>At fair value through profit or loss AED '000</i>	<i>At amortised cost AED '000</i>	<i>Total AED '000</i>
31 March 2014				
Equity instruments:				
- Quoted	112,459	158,917	-	271,376
- Unquoted	158,524	-	-	158,524
Debt instruments:				
- Quoted - fixed rate	-	2,532	273,471	276,003
Investment in managed funds	<u>9,991</u>	<u>-</u>	<u>-</u>	<u>9,991</u>
	<u>280,974</u>	<u>161,449</u>	<u>273,471</u>	<u>715,894</u>
UAE	271,528	161,449	169,175	602,152
Outside UAE	<u>9,446</u>	<u>-</u>	<u>104,296</u>	<u>113,742</u>
	<u>280,974</u>	<u>161,449</u>	<u>273,471</u>	<u>715,894</u>
31 December 2013 (Audited)				
Equity instruments:				
- Quoted	98,415	198,917	-	297,332
- Unquoted	149,416	-	-	149,416
Debt instruments:				
- Quoted - fixed rate	-	2,438	284,485	286,923
Investment in managed funds	<u>10,409</u>	<u>-</u>	<u>-</u>	<u>10,409</u>
	<u>258,240</u>	<u>201,355</u>	<u>284,485</u>	<u>744,080</u>
UAE	248,618	198,917	180,189	627,724
Outside UAE	<u>9,622</u>	<u>2,438</u>	<u>104,296</u>	<u>116,356</u>
	<u>258,240</u>	<u>201,355</u>	<u>284,485</u>	<u>744,080</u>

The fair value of investments carried at amortised cost at 31 March 2014 is AED 267,346 (31 December 2013: 266,852).

Finance House P.J.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2014 (unaudited)

8 LOANS, ADVANCES AND ISLAMIC FINANCING AND INVESTING ASSETS

8.1 LOANS AND ADVANCES, NET

	<i>31 March 2014 AED'000</i>	<i>(Audited) 31 December 2013 AED'000</i>
Commercial loans	1,424,204	1,366,828
Retail finance	<u>283,739</u>	<u>277,543</u>
	1,707,943	1,644,371
Less: allowance for impairment		
Specific	(161,257)	(149,439)
Collective	<u>(16,655)</u>	<u>(16,531)</u>
	<u>1,530,031</u>	<u>1,478,401</u>

Loans and advances are stated net of allowance for impairment. The movement in the allowance during the period / year is as follows:

At 1 January	165,970	186,512
Charge for the period/year, net	11,942	37,541
Written off during the period/year	<u>-</u>	<u>(58,083)</u>
At 31 March/31 December	<u>177,912</u>	<u>165,970</u>

8.2 ISLAMIC FINANCING AND INVESTING ASSETS

	<i>31 March 2014 AED'000</i>	<i>(Audited) 31 December 2013 AED'000</i>
Commodities Murabaha	46,588	45,931
Covered card and drawings	40,176	28,114
Purchase & lease back	25,957	19,588
Ijarah	<u>10,037</u>	<u>10,037</u>
	122,758	103,670
Less: allowance for impairment		
Specific	(3,090)	(2,113)
Collective	<u>(1,375)</u>	<u>(1,115)</u>
	<u>118,293</u>	<u>100,442</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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8 LOANS, ADVANCES AND ISLAMIC FINANCING AND INVESTING ASSETS continued

8.2 ISLAMIC FINANCING AND INVESTING ASSETS continued

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

	31 March 2014 AED'000	<i>(Audited)</i> 31 December 2013 AED'000
At 1 January	3,228	1,887
Charge for the period/year	<u>1,237</u>	<u>1,341</u>
At 31 March/31 December	<u>4,465</u>	<u>3,228</u>

9 CUSTOMERS' DEPOSITS

	31 March 2014 AED'000	<i>(Audited)</i> 31 December 2013 AED'000
Call and demand deposits	315,740	85,289
Time deposits	1,583,327	1,989,249
Wakala deposits	<u>148,104</u>	<u>103,604</u>
	<u>2,047,171</u>	<u>2,178,142</u>

Analysis of customers' deposits by sector is as follows:

Government	459,938	785,365
Corporate	<u>1,587,233</u>	<u>1,392,777</u>
	<u>2,047,171</u>	<u>2,178,142</u>

10 NON CONVERTIBLE SUKUK

In June 2012, the Company raised financing by way of a Shari'a compliant subordinated sukuk issued by Finance House Sukuk Company 1 (the issuer and a special purpose vehicle) amounting to AED 150 million and maturing in June 2017. The sukuk carries a profit rate of 6 months EIBOR plus 3.00% or 6.25% per annum whichever is higher, payable semi-annually as periodic distribution amount. Profit distribution accrued as of 31 March 2014 relating to Sukuk held by external parties amounted to AED 2,016 thousand (31 March 2013: AED 2,028 thousand). Sukuk amounting to AED 21,000 thousand (31 December 2013: AED 21,000 thousand) were held by subsidiaries of the Group and, accordingly, were eliminated in the interim consolidated statement of financial position.

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11 SHARE CAPITAL

	<i>31 March</i> <i>2014</i> <i>AED'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2013</i> <i>AED'000</i>
<i>Authorised, issued and fully paid</i>		
302.5 million shares (2012: 302.5 million shares) of AED 1 each (2012: AED 1 each)	<u>302,500</u>	<u>302,500</u>

12 TREASURY SHARES

Treasury shares represent the cost of 2,135 thousand shares of the Company held by a subsidiary as at 31 March 2014 (31 December 2013: 2,041 thousand shares).

13 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, nil shares were granted to employees and the value of outstanding shares not yet granted to employees as of 31 March 2014 were AED 1,750 thousand (31 December 2013: AED 1,750 thousand).

14 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:

	<i>31 March</i> <i>2014</i> <i>AED'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2013</i> <i>AED'000</i>
Letters of credit	38,457	45,540
Letters of guarantee	1,001,975	1,014,802
Capital commitments	70,838	70,838
Irrevocable commitments to extend credit	<u>164,300</u>	<u>143,442</u>
	<u>1,275,570</u>	<u>1,274,622</u>

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

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15 RELATED PARTY DISCLOSURES

In the ordinary course of business, the Group enters into transactions with major shareholders, directors, senior management and their related concerns at commercial interest and commission rates.

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

	<i>31 March</i> <i>2014</i> <i>AED'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2013</i> <i>AED'000</i>
<i>Loans and advances to customers</i>		
To key management staff	<u>363</u>	<u>343</u>
<i>Customers' deposits</i>		
From others	<u>6,898</u>	<u>9,590</u>

Significant transactions with related parties during the period included in the interim consolidated income statement were as follows:

	<i>31 March</i> <i>2014</i> <i>AED'000</i>	<i>Three month period ended</i> <i>31 March</i> <i>2013</i> <i>AED'000</i>
<i>Interest and commission income</i>		
From key management	<u>2</u>	<u>-</u>
<i>Interest expense</i>		
To others	<u>9</u>	<u>4</u>
<i>Key management remuneration</i>		
Short term benefits (salaries, benefits and bonuses)	<u>4,958</u>	<u>4,374</u>

16 SEASONALITY OF RESULTS

No income of a seasonal nature was recorded in the interim consolidated income statement for the three month period ended 31 March 2014 and 31 March 2013.

17 DIVIDENDS

The Company's General Assembly in their annual meeting held on 12 March 2014 approved a cash dividend of AED 25 fils per share (2013: AED 12 fils per share) amounting to AED 75,625 thousand (2013: AED 36,300 thousand) in total. The dividend was approved by the U.A.E Central Bank and paid subsequent to the period end.

18 SEGMENT INFORMATION

For management purposes, the Group is organised into six 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) Construction, which involves the Group's subsidiaries performing real estate construction related activities.
- (vi) 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:

Finance House P.J.S.C.

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18 SEGMENT INFORMATION continued

Products and services from which reportable segments derive their revenues

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

	Commercial and retail financing AED '000	Investment AED '000	Islamic financing and investing AED '000	Construction AED '000	Brokerage AED '000	Insurance AED '000	Unallocated AED '000	Total AED '000
<i>31 March 2014 (Unaudited)</i>								
Operating income	<u>26,589</u>	<u>46,631</u>	<u>2,955</u>	<u>(1,951)</u>	<u>7,072</u>	<u>9,908</u>	<u>-</u>	<u>91,204</u>
Inter-segment revenues	<u>(14,936)</u>	<u>14,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Segmental results and profit (loss) from operations	<u>6,148</u>	<u>43,405</u>	<u>(193)</u>	<u>(3,440)</u>	<u>3,735</u>	<u>3,307</u>	<u>(17,448)</u>	<u>35,514</u>
Segmental assets	<u>1,566,586</u>	<u>1,634,069</u>	<u>292,123</u>	<u>51,320</u>	<u>170,845</u>	<u>265,413</u>	<u>-</u>	<u>3,980,356</u>
Segmental liabilities	<u>1,560,438</u>	<u>1,217,523</u>	<u>190,330</u>	<u>65,908</u>	<u>135,213</u>	<u>120,656</u>	<u>-</u>	<u>3,290,068</u>
<i>31 March 2013 (Unaudited)</i>								
Operating income	<u>32,756</u>	<u>16,946</u>	<u>2,260</u>	<u>(959)</u>	<u>1,760</u>	<u>7,376</u>	<u>-</u>	<u>60,139</u>
Inter-segment revenues	<u>(15,078)</u>	<u>15,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Segmental results and profit (loss) from operations	<u>20,730</u>	<u>15,345</u>	<u>287</u>	<u>(3,015)</u>	<u>88</u>	<u>3,110</u>	<u>(10,737)</u>	<u>25,808</u>
<i>31 December 2013 (Audited)</i>								
Segmental assets	<u>1,517,342</u>	<u>1,889,468</u>	<u>247,371</u>	<u>56,230</u>	<u>151,191</u>	<u>254,608</u>	<u>-</u>	<u>4,116,210</u>
Segmental liabilities	<u>1,476,762</u>	<u>1,430,099</u>	<u>145,331</u>	<u>101,223</u>	<u>119,444</u>	<u>114,338</u>	<u>-</u>	<u>3,387,197</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2014 (unaudited)

19 FAIR VALUE MEASUREMENT

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

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 March 2014:

	<i>Date of valuation</i>	<i>Level 1 AED 000</i>	<i>Level 2 AED 000</i>	<i>Level 3 AED 000</i>	<i>Total AED 000</i>
ASSETS MEASURED AT FAIR VALUE					
Investment property	15 December 2013	—	—	81,200	81,200
Property, fixtures and equipment (land)	31 December 2012	—	85,667	—	85,667
<i>At fair value through profit or loss</i>					
Quoted equities	31 March 2014	158,917	—	—	158,917
Quoted debt instruments	31 March 2014	<u>2,532</u>	—	—	<u>2,532</u>
		161,449	—	—	161,449
<i>At fair value through other comprehensive income</i>					
Quoted equities	31 March 2014	112,459	—	—	112,459
Unquoted equities	31 March 2014	—	63,411	95,113	158,524
Investment in managed funds	31 March 2014	—	<u>9,991</u>	—	<u>9,991</u>
		112,459	73,402	95,113	280,974
ASSETS FOR WHICH FAIR VALUE IS DISCLOSED					
Investment carried at amortised cost	31 March 2014	267,346	—	—	267,346

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

	<i>Date of valuation</i>	<i>Level 1 AED 000</i>	<i>Level 2 AED 000</i>	<i>Level 3 AED 000</i>	<i>Total AED 000</i>
ASSETS MEASURED AT FAIR VALUE					
Investment property	15 December 2013	—	—	81,200	81,200
Property, fixtures and equipment (land)	31 December 2012	—	85,667	—	85,667
<i>At fair value through profit or loss</i>					
Quoted equities	31 December 2013	198,917	—	—	198,917
Quoted debt instruments	31 December 2013	<u>2,438</u>	—	—	<u>2,438</u>
		201,355	—	—	201,355
<i>At fair value through other comprehensive income</i>					
Quoted equities	31 December 2013	98,415	—	—	98,415
Unquoted equities	31 December 2013	—	54,303	95,113	149,416
Investment in managed funds	31 December 2013	—	<u>10,409</u>	—	<u>10,409</u>
		98,415	64,712	95,113	258,240
ASSETS FOR WHICH FAIR VALUE IS DISCLOSED					
Investment carried at amortised cost	31 December 2013	266,852	—	—	266,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

19 FAIR VALUE MEASUREMENT continued

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 earning 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.

	<i>Valuation technique</i>	<i>Significant unobservable inputs to valuation</i>	<i>Range</i>	<i>Sensitivity (Weighted of the input average) to fair value</i>
Unquoted equities	DCF Method	Long term growth rate	2%	1.5% increase (decrease) in the long term growth rate would result in increase (decrease) in the fair value by AED 2.1 million and (AED 0.3 million) respectively.
		Discount rate	15%	1% increase (decrease) in the discount rate would result in (decrease) increase in fair value by (AED 0.8 million) and AED 2.6 million respectively.
		Growth rate in revenue projections	4% - 6%	1% increase (decrease) in the growth rates in cash flows would result in increase (decrease) in fair value by AED 7.9 million and (AED 6 million) respectively.
Unquoted equities	Price Earning Multiple Valuation Basis	PE Multiple	7 - 13	Increase (decrease) in the PE Multiples by 1 would result in increase (decrease) in fair value by AED 5 million

Transfers between categories

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (2013: None).