

# **Finance House P.J.S.C.**

## **CHAIRMAN'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2014

# **Finance House P.J.S.C.**

## **CHAIRMAN'S REPORT**

**31 DECEMBER 2014**

## **Chairman's Report for the year ended 31 December 2014**

On behalf of the Board of Directors, I am pleased to present the financial statements of Finance House P.J.S.C. and its subsidiaries (FH Group) as at 31 December 2014.

For the year ended 31 December 2014, FH Group posted a consolidated net profit of AED 73.3 million, compared to a consolidated net profit of AED 83.7 million achieved in the previous year. Profit attributable to the equity holders of the parent (Finance House P.J.S.C) for 2014 was higher at AED 80.7million, compared to AED 76.9 million in the previous year. Total Assets as of 31 December 2014 swelled to AED 4.88 billion compared to AED 4.10billion as at 31 December 2013, registering a robust increase of 18.9% during the year.

Despite challenging market conditions and a tighter regulatory framework, we are proud to maintain our profitable stance for the tenth successive year since inception. For a genuine private sector enterprise operating in the fiercely competitive UAE financial services sector, this is a creditable achievement indeed.

On the back of a healthy growth in the asset book, Net Interest Income and Income from Islamic Financing & Investing Assets grew by a healthy 13.4% to reach AED 145.6 million in 2014 compared to AED 128.4 million in the previous year. At the same time, Net Fee and Commission income soared by 36% to AED 59.1 million in 2014, compared to AED 43.5 million in 2013. Aggregate investment & other operating income from our well diversified proprietary investment portfolio consisting of listed equity, private equity, fixed income and investment properties held up well at AED 93.9 million in 2014 compared to AED 98.3 million in the previous year. This is despite the unexpected, steep fall in domestic listed equity prices during the last quarter of 2014.

The major disappointment of the year 2014 was a Net Loss of AED 20.9 million sustained in our insurance subsidiary, compared to a Net Profit of AED 9.6 million registered by this business during the previous financial year. This was primarily due to two factors- substantially higher claims under Motor & Medical Insurance policies underwritten in 2013/2014 and the continued intense competition amongst insurance companies, driving premiums lower.

We have initiated appropriate corrective measures to alter the product-mix, weed-out unprofitable businesses and/or re-price them in line with known risk characteristics.



دار التمويل ش.م.ع؛ ص.ب ٧٨٧٨، أبوظبي، ا.ع.م؛ هاتف: ٩٩٩ ٦٢١٩ (٢) +٩٧١؛ فاكس: ٩٩٩ ٦١٩٤ (٢) +٩٧١  
Finance House P.J.S.C; P.O. Box 7878, Abu Dhabi, U.A.E; Tel: +971 (2) 6219 999; Fax: +971 (2) 6194 099

شركة مساهمة عامة برأس مال وقدره ٣٠٢,٥ مليون درهم إماراتي Public Joint Stock Company and the share capital is AED 302.5 million

Concurrently, we have also strengthened our claims management procedures to ensure that loss ratios fall in line-with or lower than our estimates for such product lines. The positive impact of these initiatives should be more clearly visible in 2015.

As a combined result of the above, Total Operating Income for 2014 was up by 6.6% at AED 284.0 million compared to AED 266.4 million in the previous year.

During the year, Customer deposits grew by a whopping 30.9% to reach AED 2.85 billion as of 31 December 2014, compared to AED 2.18 billion as at the end of the previous year. This is an all-time high in the 10 year history of the Company and bears testimony to the continued confidence that the market places in Finance House.

Net Loans & Advances including Islamic Financing & Investing Assets grew briskly by 31.1% to reach AED 2.07 billion as at 31 December 2014, compared to AED 1.58 billion at the end of the previous year. Notwithstanding this rapid pace of loan book growth during the year, our Loans to Deposits ratio as of 31 December 2014 stood at a remarkably healthy 72.6% compared to 72.5% in the previous year, reflecting both our balanced approach to asset/ liability growth and the significant head room available for sustained loan book growth in 2015 and beyond.

Our bad debt provisioning policy continues to be conservative and as of 31 December 2014, we maintain loan loss coverage of 100% (2013: 94%) by way of specific provisions to cover net exposure against individually impaired loans and loan balances that are past due for 91 days or more but are not impaired. In addition, we also maintain collective provision of 1.50% of the Performing Portfolio, in line with UAE Central Bank guidelines.

Total operating expenses were higher by 20.2% in 2014 compared to 2013 mainly on account of hiring new employees and higher establishment costs, in line with increased business volumes across all business segments.

FH Group continues to manage its liquidity in a prudent manner. Since the onset of the financial crisis in Oct 2008, we have remained net lenders to the UAE inter-bank market and continue to maintain this position till date. Cash and cash equivalents as at 31 December 2014 increased to AED 877.4 million compared to AED 817 million as at the end of the previous year, representing a healthy 18% of Total Assets.



Shareholders' equity as at 31 December 2014 improved to AED 743.6million and Capital adequacy ratio stood at a robust 20.6%, providing a solid footing for sustained future growth in assets.

Bearing in mind the Total Comprehensive Income of AED 94.9 million attributable to the equity shareholders of Finance House P.J.S.C for the year 2014, the sound liquidity position of the Group and the robust Capital Adequacy ratio, the Board has recommended distribution of a cash dividend of 20 % and a stock dividend of 2.5% subject to regulatory approvals.

We look forward to 2015 with cautious optimism for sustained profitable growth, in line with our growth aspirations. Our strategy is sound and we have the necessary mechanisms and structures in place to exploit profitable opportunities, to adapt quickly to changing market conditions, to continue managing risks well and to maximize returns for our shareholders.

On behalf of the Board of Directors,



**Mohammed Abdulla Jumaa Alqubaisi**  
Chairman



Abu Dhabi  
12 February 2015



# **Finance House P.J.S.C.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2014**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINANCE HOUSE P.J.S.C.**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Finance House P.J.S.C. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the Chairman's Report relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

*Ernst & Young*

Signed by:

Raed Ahmad

Partner

Ernst & Young

Registration No 811

12 February 2015

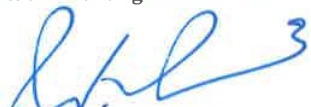
Abu Dhabi



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 AED'000	2013 AED'000
<b>ASSETS</b>			
Cash balances	4	10,304	9,497
Due from banks	4	931,457	1,093,081
Investments carried at fair value through other comprehensive income	5	327,818	258,240
Investments carried at fair value through profit or loss	5	248,377	201,355
Investments carried at amortised cost	5	556,735	284,485
Loans and advances, net	6	1,931,460	1,478,401
Islamic financing and investing assets	7	138,811	100,442
Investment in an associate	8	44,507	30,422
Statutory deposit	9	6,000	6,000
Property, fixtures and equipment	10	13,421	288,082
Intangibles	11	14,290	15,596
Investment properties	12	376,200	81,200
Interest receivable and other assets	13	277,741	253,920
<b>TOTAL ASSETS</b>		<b>4,877,121</b>	<b>4,100,721</b>
<b>LIABILITIES</b>			
Customers' deposits	14	2,850,221	2,178,142
Due to banks		64,379	207,528
Short term borrowings	15	190,000	-
Interest payable and other liabilities	16	893,824	849,156
Provision for employees' end of service benefits		8,826	7,882
Non-convertible sukuk	17	126,300	129,000
<b>TOTAL LIABILITIES</b>		<b>4,133,550</b>	<b>3,371,708</b>
<b>EQUITY</b>			
Share capital	18	302,500	302,500
Treasury shares	22	(9,263)	(7,213)
Employees' share-based payment scheme	19	(1,750)	(1,750)
Statutory reserve	20	131,865	123,797
Revaluation reserve		22,409	18,962
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		(12,488)	(25,336)
Retained earnings		165,763	171,461
Proposed directors' remuneration		6,249	5,404
		605,285	587,825
Non-controlling interests	3	138,286	141,188
<b>TOTAL EQUITY</b>		<b>743,571</b>	<b>729,013</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,877,121</b>	<b>4,100,721</b>
Commitments and contingent liabilities	23	1,373,414	1,274,622

  
 Mr. Mohammed Alqubaisi  
 CHAIRMAN

  
 Mr. Hamid Taylor  
 GENERAL MANAGER

The attached notes 1 to 36 form part of these consolidated financial statements.

**CONSOLIDATED INCOME STATEMENT**

Year ended 31 December 2014

	Notes	2014 AED'000	2013 AED'000
Interest income and income from Islamic financing and investing assets	24	199,423	177,733
Interest expense and profit distributable to depositors	24	<u>(53,833)</u>	<u>(49,334)</u>
<b>Net interest income and income from Islamic financing and investing assets</b>		<b>145,590</b>	<b>128,399</b>
Net fee and commission income	25	59,125	43,476
Net contract income (loss)	26	7,501	(2,077)
Net insurance (expense) income	27	(14,163)	6,336
Profit distributable to sukuk holders		(7,894)	(8,063)
Net income from investments	28	68,342	89,294
Net income from investment properties		13,914	11,890
Gain on fair valuation of investment properties	12	4,841	3,706
Share of loss of associates	8	(1,915)	(16,070)
Gain on disposal of investment in an associate	8	-	5,872
Other operating income, net		<u>8,672</u>	<u>3,657</u>
<b>Total operating income</b>		<b><u>284,013</u></b>	<b><u>266,420</u></b>
Salaries and employees related expenses		(109,616)	(92,125)
Depreciation of property, fixtures and equipment	10	(5,056)	(6,071)
Amortisation of intangibles	11	(1,306)	-
General and administrative expenses		(56,924)	(45,636)
Allowance for impairment of loans and advances, net	6	(34,932)	(37,541)
Allowance for impairment of Islamic financing and investing assets	7	<u>(2,855)</u>	<u>(1,341)</u>
<b>Total operating expenses and allowances</b>		<b><u>(210,689)</u></b>	<b><u>(182,714)</u></b>
<b>Profit for the year</b>		<b><u>73,324</u></b>	<b><u>83,706</u></b>
<i>Attributable to:</i>			
Equity holders of the parent		80,683	76,853
Non-controlling interests	3	<u>(7,359)</u>	<u>6,853</u>
		<u>73,324</u>	<u>83,706</u>
<b>Basic and diluted earnings per share attributable to ordinary shares (AED)</b>	29	<u>0.27</u>	<u>0.26</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2014

	<i>Notes</i>	<b>2014</b> <b>AED'000</b>	<b>2013</b> <b>AED'000</b>
<b>Profit for the year</b>		<b><u>73,324</u></b>	<b><u>83,706</u></b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to consolidated income statement:</b>			
Net gain on financial assets measured at fair value through other comprehensive income		<b>15,979</b>	<b>38,449</b>
Revaluation on transfer to investment properties	10	<b>3,447</b>	<b>-</b>
Directors' remuneration paid		<b><u>(5,654)</u></b>	<b><u>(4,578)</u></b>
		<b><u>13,772</u></b>	<b><u>33,871</u></b>
<b>Items that may be reclassified subsequently to consolidated income statement</b>		<b><u>-</u></b>	<b><u>-</u></b>
<b>Other comprehensive income for the year</b>		<b><u>13,772</u></b>	<b><u>33,871</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>87,096</u></b>	<b><u>117,577</u></b>
<i>Attributable to:</i>			
Equity holders of the parent		<b>94,853</b>	<b>108,369</b>
Non-controlling interests	3	<b><u>(7,757)</u></b>	<b><u>9,208</u></b>
		<b><u>87,096</u></b>	<b><u>117,577</u></b>

The attached notes 1 to 36 form part of these consolidated financial statements.

# Finance House P.J.S.C.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	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	Atributable to shareholders of the parent company AED '000	Non controlling interests AED '000	Total AED '000
<b>2013</b>											
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	-	-	-	-	-	5,358	(5,358)	-	-	-	-
Profit for the year	-	-	-	-	-	-	76,853	-	76,853	6,853	83,706
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	36,094	-	-	36,094	2,355	38,449
Directors' remuneration paid	-	-	-	-	-	-	-	(4,578)	(4,578)	-	(4,578)
Total comprehensive income (expense) for the year	-	-	-	-	-	36,094	76,853	(4,578)	108,369	9,208	117,577
Proposed directors' remuneration	-	-	-	-	-	-	(5,404)	5,404	-	-	-
Cash dividend paid (note 21)	-	-	-	-	-	-	(36,300)	-	(36,300)	-	(36,300)
Transfer to statutory reserve	-	-	-	7,685	-	-	(7,685)	-	-	-	-
Purchase of treasury shares	-	(2,524)	-	-	-	-	-	-	(2,524)	-	(2,524)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	(798)	(798)
Balance at 31 December 2013	<u>302,500</u>	<u>(7,213)</u>	<u>(1,750)</u>	<u>123,797</u>	<u>18,962</u>	<u>(25,336)</u>	<u>171,461</u>	<u>5,404</u>	<u>587,825</u>	<u>141,188</u>	<u>729,013</u>
<b>2014</b>											
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
Gain on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	(3,529)	3,529	-	-	-	-
Profit for the year	-	-	-	-	-	-	80,683	-	80,683	(7,359)	73,324
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	16,377	-	-	16,377	(398)	15,979
Directors' remuneration paid	-	-	-	-	-	-	-	(5,654)	(5,654)	-	(5,654)
Revaluation of capital work in progress on transfer to investment properties	-	-	-	-	3,447	-	-	-	3,447	-	3,447
Total comprehensive income (expense) for the year	-	-	-	-	3,447	16,377	80,683	(5,654)	94,853	(7,757)	87,096
Proposed directors' remuneration	-	-	-	-	-	-	(6,499)	6,499	-	-	-
Cash dividend paid (note 21)	-	-	-	-	-	-	(75,625)	-	(75,625)	-	(75,625)
Transfer to statutory reserve	-	-	-	8,068	-	-	(8,068)	-	-	-	-
Purchase of treasury shares	-	(2,050)	-	-	-	-	-	-	(2,050)	-	(2,050)
Change in non-controlling interest	-	-	-	-	-	-	282	-	282	4,855	5,137
Balance at 31 December 2014	<u>302,500</u>	<u>(9,263)</u>	<u>(1,750)</u>	<u>131,865</u>	<u>22,409</u>	<u>(12,488)</u>	<u>165,763</u>	<u>6,249</u>	<u>605,285</u>	<u>138,286</u>	<u>743,571</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 AED'000	2013 AED'000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		73,324	83,706
Non-cash adjustments for:			
Depreciation of property, fixtures and equipment	10	5,056	6,071
Amortisation of intangibles	11	1,306	-
Gain on fair valuation of investment properties	12	(4,841)	(3,706)
Loss on disposal of investments carried at amortised cost	28	972	759
Share of results of an associate	8	1,915	16,070
Gain on disposal of investment in an associate	8	-	(5,872)
Gain on disposal of investment properties		-	(4,297)
Dividend income from investments	28	(15,809)	(13,671)
Gain on disposal of investments carried at fair value through profit or loss	28	(90,239)	(14,231)
Unrealised loss (gain) on investments carried at fair value through profit or loss	28	36,734	(62,151)
Allowance for impairment of loans and advances	6	34,932	37,541
Allowance for impairment of Islamic financing and investing assets	7	2,855	1,341
Net movement in provision for employees' end of service benefits		944	321
		47,149	41,881
Working capital adjustments:			
Decrease in due from banks maturing after three months		218,100	60,289
Increase in Islamic financing and investing assets		(41,224)	(23,488)
Increase in loans and advances		(487,991)	(137,157)
Increase in interest receivable and other assets		(23,821)	(27,532)
Decrease in term loans		-	(228,831)
(Decrease) increase in due to banks maturing after three months		(140,000)	34,582
Increase in customers' deposits		672,079	374,471
Increase in interest payable and other liabilities		44,668	267,775
Net cash from operating activities		288,960	361,990
<b>INVESTING ACTIVITIES</b>			
Purchase of investments carried at fair value through other comprehensive income		(73,588)	(4,454)
Proceeds from sale of investments carried at fair value through other comprehensive income		19,989	27,025
Purchase of investments carried at fair value through profit or loss		(268,087)	(149,171)
Proceeds from sale of investments carried at fair value through profit or loss		274,570	329,538
Purchase of investments carried at amortised cost		(324,486)	(310,004)
Proceeds from sale of investments carried at amortised cost		51,264	24,760
Proceeds from sale of investment property		-	28,366
Addition to property, fixtures and equipment	10	(17,107)	(58,662)
Purchase of intangible asset		-	(3,918)
Investment in an associate	8	(16,000)	(13,666)
Proceeds from sale of investment in an associate		-	16,201
Dividend income received		15,809	13,671
Net cash used in investing activities		(337,636)	(100,314)
<b>FINANCING ACTIVITIES</b>			
Increase in short term borrowings	15	190,000	-
Directors' remuneration paid		(5,654)	(4,578)
Non-convertible sukuk		(2,700)	400
Purchase of treasury shares		(2,050)	(2,524)
Change in non-controlling interest		5,137	(798)
Cash dividend paid	21	(75,625)	(36,300)
Net cash from (used in) financing activities		109,108	(43,800)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		60,432	217,876
Cash and cash equivalents at 1 January	4	816,950	599,074
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	4	877,382	816,950

The attached notes 1 to 36 form part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 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 consolidated financial statements of the Group were authorised for issue by the Board of Directors on 12 February 2015.

### 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the laws in the U.A.E.

The consolidated financial statements have been prepared on historical cost basis, except for certain financial instruments and properties which are carried at fair value.

The consolidated financial statements of the Group are prepared 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.

### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the “Group”) as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-group balances, income and expenses and profits and losses resulting from intra-group transactions, are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.2 BASIS OF CONSOLIDATION continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

### 2.3 CHANGES IN ACCOUNTING POLICIES

The Group's accounting policies are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2013, except for the following amendments to IFRS and interpretations effective as of 1 January 2014, which do not have any significant impact on the consolidated financial statements:

#### **IFRS 10, IFRS 12 and IAS 27: (Amendment):**

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* or IFRS 9: *Financial Instruments* (as applicable) in the consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12: *Disclosure of Interest in Other Entities* and IAS 27: *Separate Financial Statements*.

These amendments are not relevant to the Group, as the Group did not qualify to be an investment entity under IFRS 10.

#### **IAS 32: Financial Instruments: Presentation (Amendment):**

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the year.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.3 CHANGES IN ACCOUNTING POLICIES continued

#### **IAS 36: Impairment of Assets (Amendment):**

This amendment requires the disclosure of information about the recoverable amount of impaired non-financial assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using the present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

The amendment did not have any significant impact on the consolidated financial position and performance of the Group during the year.

#### **IAS 39: Financial Instruments: Recognition and Measurement (Amendment):**

This amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The amendment did not have any impact, as the Group has not novated its derivatives during the year.

#### **IFRIC 21: Levies:**

This amendment clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the year.

### 2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards and amendments to standards which were issued up to 31 December 2014 and are not yet effective for the year ended 31 December 2014 have not been applied while preparing these consolidated financial statements:

**IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)** introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

**IFRS 9: Financial Instruments - impairment** introduces new requirements for impairment. On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The IASB has addressed the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The requirements of IFRS 9 relating to impairment are for annual periods beginning on or after 1 January 2018, with early application permitted.

**IFRS 14: Regulatory Deferral Accounts** is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

**IFRS 15: Revenue from Contracts with Customers** was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

**IFRS 11: Joint Arrangements (Amendment)** require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**IAS 16 and IAS 38: (Amendment)** clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**IAS 16 and IAS 41: (Amendment)** changes the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**IAS 27: Separate Financial Statements (Amendment)** will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the impact of these new standards and amendments on the consolidated financial statements.

### 2.5 SIGNIFICANT ACCOUNTING POLICIES

#### Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the U.A.E. Central Bank, due from banks which mature within three months from the date of placement, net of balances due to banks maturing within three months from the date of acceptance.

#### Due from banks

Due from banks are stated at amortised cost using the effective interest rate less any amounts written off and provision for impairment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.5 SIGNIFICANT ACCOUNTING POLICIES** continued

**Investment in associates**

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf.

The Group's share of the result of operations of associates is included in the consolidated income statement. Unrealized profits and losses from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

**Financial assets**

Financial assets – initial recognition and subsequent measurement

*Date of recognition*

All financial assets are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

*Initial measurement*

All financial assets are initially measured at their fair value plus transaction costs, except for those financial assets measured at fair value through profit or loss.

*Subsequent measurement*

The subsequent measurement of financial assets depends on the Group's business model for managing those financial assets and their contractual cash flow characteristics.

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

*Financial assets measured at amortised cost*

Financial assets are measured at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount. An inability to meet these two criteria requires the financial asset to be subsequently measured at fair value through profit or loss. However, even where both conditions are met, the Company may elect upon initial recognition to measure the financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments (including derivatives embedded in financial host assets) meeting these criteria are subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment charges and transaction costs incurred upon initial recognition. The effective interest rate method calculates an interest rate which exactly discounts estimated future cash receipts through the expected life of the financial asset or a shorter period (where appropriate) to the net carrying amount of the financial asset. After initial measurement at fair value, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate method. The amortisation is included in interest income in the income statement. The losses arising from impairment are recognised in the income statement in allowance for impairment of loans and advances.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.5 SIGNIFICANT ACCOUNTING POLICIES continued**

**Financial assets continued**

Financial assets – initial recognition and subsequent measurement continued

*Other financial assets measured at fair value through profit and loss*

Financial assets which do not meet the amortised cost criteria such as derivatives and financial assets held for trading are measured at fair value through profit or loss. Gains or losses arising on subsequent measurement of these financial assets are recognised in the income statement. The Company determines an asset's fair value in accordance with the Company's accounting policy on fair value as discussed in note 34.

Financial assets held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend is recorded in net trading income according to the terms of the contract, or when the right to the payment has been established.

*Islamic financing and investing assets*

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

Murabaha is stated at amortised cost less any provisions for impairment and deferred income.

Istisna'a cost is measured and reported in the financial statements at a value not exceeding the cash equivalent value.

The Ijara is classified as a finance lease, when the Company undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

*Equity investments at fair value through other comprehensive income*

Equity investments not held for trading can be designated as being measured at fair value through other comprehensive income at initial recognition and such an election is irrevocable. This designation is made on an instrument-by-instrument basis. Gains or losses arising on subsequent measurement of these equity investments are recognised in other comprehensive income. The gain or loss on disposal of the asset is reclassified to retained earnings and is not recycled to profit or loss. Transaction costs on disposal are taken to the income statement. Dividends received on these equity investments are recognised in the income statement unless the dividend represents recovery of the cost of the investment.

*Financial assets designated at fair value through profit or loss*

Financial assets classified in this category are those that have been designated by management at initial recognition. Management may designate a financial asset at fair value through profit or loss upon initial recognition only when the first of the following criteria is met. Designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.5 SIGNIFICANT ACCOUNTING POLICIES continued**

**Financial assets continued**

*Financial assets – initial recognition and subsequent measurement continued*

*Financial assets designated at fair value through profit or loss continued*

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain or loss on financial assets designated at fair value through profit or loss. Interest earned is accrued in interest income, using the effective interest rate method, while dividend income is recorded in other operating income when the right to the payment has been established.

Financial assets, other than those designated at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period.

*Individually assessed loans*

Individually assessed loans represent mainly corporate and commercial loans which are assessed individually and classified by the credit risk unit in order to determine whether any objective evidence exists that a loan is impaired. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

*Collectively assessed loans*

Impairment losses of collectively assessed loans include the allowances calculated on:

- Performing loans
- Retail loans with common features and which are not individually significant

*Performing loans*

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating.

Impairment loss includes losses which may arise from individual performing loans that were impaired at the end of the reporting period but were not specifically identified as such as at that date. The estimated impairment is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

*Retail loans with common features and which are not individually significant*

Impairment of retail loans is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Impaired loans are written off only when all legal and other avenues for recovery or settlement are exhausted.

The carrying amount of loans, advances, Islamic financing and investing assets is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

*Derecognition of financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement: and either:
  - the Group has transferred substantially all the risks and rewards of the asset, or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.5 SIGNIFICANT ACCOUNTING POLICIES continued**

**Financial assets continued**

Financial assets – initial recognition and subsequent measurement continued

*Derecognition of financial assets continued*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.5 SIGNIFICANT ACCOUNTING POLICIES continued

#### Property, fixtures and equipment

Property, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying amounts are reviewed at each statement of financial position date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down. Land is measured at fair value. Valuations are performed frequently to ensure that the fair value of revalued land does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Motor vehicles	4 years
Furniture, fixtures and equipment	3-5 years
Computer hardware and software	3-4 years

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

#### Intangible assets

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

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

The estimated useful economic life of the intangible asset for the calculation of amortization is as follows:

License	5 years
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Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.5 SIGNIFICANT ACCOUNTING POLICIES** continued

**Investment properties**

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

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

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group measures such property at fair value at the date of change in use. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the consolidated statement of financial position. A revaluation deficit is recognised in the consolidated income statement.

**Insurance receivables**

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

**Reinsurance contracts held**

In order to minimize financial exposure from large claims, the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to receivables arising from insurance and reinsurance companies.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policy holders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire when the contract is transferred to another party.

**Financial liabilities and equity instruments**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.5 SIGNIFICANT ACCOUNTING POLICIES continued

#### **Financial liabilities and equity instruments continued**

##### *Financial liabilities*

All financial liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial liabilities that require delivery of liabilities within the time frame generally established by regulation or convention in the market place.

Financial liabilities, including customers' deposits, due to banks, wakala deposits, term loans and other payables are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

#### **Repurchase agreements**

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

#### **Operating segment reporting**

An operating segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments and whose operating results are regularly reviewed by the Group's Chief Operating decision maker to make decisions about allocation of resources and assess its performance.

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

#### **Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the party or not.

#### **Employees' end of service benefits**

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.5 SIGNIFICANT ACCOUNTING POLICIES continued

#### Foreign currencies

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

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

#### Fair values

The Group measures financial instruments such as investment carried at fair value through profit or loss and investment carried at fair value through other comprehensive income, and non-financial assets such as investment properties at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.5 SIGNIFICANT ACCOUNTING POLICIES continued

#### **Fair values continued**

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 34.

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

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

#### **Recognition of income and expenses**

##### *Interest*

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income is suspended and not recognised.

##### *Fees and commission*

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

##### *Murabaha*

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

##### *Istisna'a*

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Company's total Istisna'a cost) is accounted for on a time apportioned basis.

##### *Ijara*

Ijara income is recognised on a time apportioned basis over the lease term.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, income is suspended and not recognised.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.5 SIGNIFICANT ACCOUNTING POLICIES** continued

**Recognition of income and expenses** continued

*Income on balances with financial institutions*

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

*Dividend income*

Revenue is recognised when the Group's right to receive the payment is established.

*Contract revenue*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the surveys of work performed and completion of a physical proportion of the contracts. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

**Insurance income**

*Insurance contract*

Insurance contracts are those contracts where the Group has accepted significant insurance risk from another party (the "policyholders") by agreeing to compensate the policyholders if a specified uncertain future event (the "insured event") adversely affects the policyholders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

*Premiums earned*

Premiums written are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired periods of coverage.

*Commissions earned*

Profit commission is accounted for as and when received while other commissions are accounted for when earned.

*Claims*

Claims comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group.

The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

The Group does not discount its liability for unpaid claims as these are expected to be settled within one year of reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

#### **Judgments**

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

##### *Consolidation of entities in which the Group holds less than majority of voting rights*

The Group considers that it controls Islamic Finance House P.J.S.C. and Insurance House P.S.C. even though it owns less than 50% of the voting rights in both the entities as the Group is the largest shareholder of Islamic Finance House P.J.S.C. and Insurance House P.S.C. with a 47.83% and 44.83% equity interest respectively.

##### *Classification of properties*

Management decides, on acquisition of a property, whether it should be classified as investment property, property and equipment or as property held for sale.

Properties acquired by the Group are recorded as investment properties if these were acquired for rental purposes or capital appreciation.

Properties held for own use are recorded as property, fixtures and equipment.

Properties are recorded as held for sale if their carrying amounts will be recovered through a sale transaction.

##### *Classification of investments*

The Group classifies investments as fair value through profit and loss if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit and loss in the management accounts, they are classified as fair value through profit and loss.

Equity investments not held for trading can be designated as being measured at fair value thorough other comprehensive income at initial recognition.

Investments are classified at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount.

#### **Estimates and assumptions**

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued**

**Estimates and assumptions continued**

*Fair value of investment properties*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated income statement. The Group engaged an independent valuation specialist to assess fair value at 31 December 2014 for its investment property using a valuation methodology based on the 'income method'. The key assumptions used to determine the fair value of the property and sensitivity analyses are disclosed in note 12.

*Impairment losses on loans, advances and Islamic financing and investing assets*

The Group reviews its problematic loans, advances and Islamic financing and investing portfolio on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Collective impairment provisions on loans, advances and Islamic financing and investing assets*

In addition to specific provisions against individually significant loans, advances and Islamic financing and investing assets, the Group also makes a collective impairment provision against loans, advances and Islamic financing and investing assets which, although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for loans and advances and is adjusted to reflect current economic changes.

*Allowance for doubtful debts*

Management estimates the recoverability of trade receivables and considers the provision required for doubtful receivables, based on the prior experience and current economic situations.

*Contract cost estimates*

When the outcome of a construction contract can be estimated reliably, revenues and costs are recognised by reference to stage of completion of the contract activity at the end of the reporting period. In judging whether the outcome of the construction contract can be estimated reliably, management has considered the detailed criterion for determination of such outcome as set out in IAS 11 'Construction Contracts'. For the purpose of estimating the stage of completion of contract activity, management has considered the forecasts for revenue and costs related to each construction contract. When it is estimated that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Management has considered the costs to be incurred based on analysis and forecast of construction work to be executed.

*Fair value of unquoted investments*

As described in note 34, the management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Such financial instruments are valued using discounted cash flow and capitalisation of sustainable earnings analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unquoted shares includes some assumptions not supported by observable market prices or rates. Details of assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 34.

*Provision for outstanding claims*

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Group's internal legal counsel normally estimate such claims. Management reviews its provisions for claims incurred on a quarterly basis.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2.7 DEFINITIONS**

The following terms are used in the financial statements with the meaning specified:

*Commodities Murabaha*

A selling contract for commodities at the purchase price with a defined and agreed profit mark-up. The mark-up may be a percentage of the purchase price or a fixed amount.

*Istisna'a*

A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

*Ijara*

A lease agreement whereby the Group (as lessor) leases an asset to the Customer (as lessee), after purchasing/acquiring the specified asset according to the customer's request and promise to lease, either from a third party seller or from the customer itself, against certain rental payments for specified lease term/periods. Whereas, upon fulfillment of all the obligations by the customer (lessee) under the lease agreement, the ownership of the subject asset is transferred from the Group (lessor) to the customer (lessee).

*Sukuk*

In the content of these notes, these comprise Sharia'a compliant financial instruments representing debt under Murabaha contracts.

*Wakala*

An agreement between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

**3 SUBSIDIARIES AND PARTLY-OWNED SUBSIDIARIES**

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

Name of subsidiary	Country of incorporation	Ownership interest %		Principal activity
		2014	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.	44.83	44.38	Insurance
Finance House Securities Co L.L.C. *	U.A.E.	70	65	Brokerage
CAPM Investment P.J.S	U.A.E.	100	100	Investment and asset management

\* During the year, the Company purchased an additional 5% interest in Finance House Securities Co. L.L.C for a consideration of AED 1.5 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**3 SUBSIDIARIES AND PARTLY-OWNED SUBSIDIARIES continued**

Summarised financial information of subsidiaries with material non-controlling interests is provided below. This information is based on amounts before inter-company eliminations:

	<i>Insurance House P.S.C.</i>		<i>Islamic Finance House P.J.S.C.</i>		<i>Finance House Securities Co. LLC</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013	2014	2013
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
Non-controlling interests %	<u>55.17</u>	<u>55.62</u>	<u>52.17</u>	<u>52.17</u>	<u>30</u>	<u>35</u>	<u>-</u>	<u>-</u>
Accumulated balance of material non-controlling interests	<u>64,118</u>	<u>76,836</u>	<u>53,840</u>	<u>53,240</u>	<u>20,328</u>	<u>11,112</u>	<u>138,286</u>	<u>141,188</u>
<i>Subsidiaries' statement of financial position</i>								
Assets	<u>259,115</u>	<u>254,608</u>	<u>296,338</u>	<u>247,371</u>	<u>163,134</u>	<u>151,191</u>	<u>718,587</u>	<u>653,170</u>
Liabilities	<u>139,912</u>	<u>114,338</u>	<u>193,172</u>	<u>145,331</u>	<u>91,506</u>	<u>119,444</u>	<u>424,590</u>	<u>379,113</u>
Net assets	<u>119,203</u>	<u>140,270</u>	<u>103,166</u>	<u>102,040</u>	<u>71,628</u>	<u>31,747</u>	<u>293,997</u>	<u>274,057</u>
<i>Subsidiaries' revenues and profits (losses)</i>								
Revenue, net	<u>70,699</u>	<u>66,205</u>	<u>17,182</u>	<u>13,718</u>	<u>25,728</u>	<u>12,790</u>	<u>113,609</u>	<u>92,713</u>
Net (loss) profit for the year	<u>(20,859)</u>	<u>9,558</u>	<u>1,535</u>	<u>1,113</u>	<u>11,481</u>	<u>2,732</u>	<u>(7,843)</u>	<u>13,403</u>
Net (loss) profit for the year allocated to non-controlling interest	<u>(11,603)</u>	<u>5,317</u>	<u>800</u>	<u>580</u>	<u>3,444</u>	<u>956</u>	<u>(7,359)</u>	<u>6,853</u>
Total comprehensive (expense) income for the year	<u>(20,204)</u>	<u>14,382</u>	<u>1,128</u>	<u>809</u>	<u>10,881</u>	<u>2,731</u>	<u>(8,195)</u>	<u>17,922</u>
Total comprehensive (expense) income allocated to non-controlling interest	<u>(11,855)</u>	<u>7,830</u>	<u>600</u>	<u>422</u>	<u>3,498</u>	<u>956</u>	<u>(7,757)</u>	<u>9,208</u>
<i>Subsidiaries' summarized cashflow information</i>								
Operating	<u>(12,350)</u>	<u>(3,892)</u>	<u>(46,660)</u>	<u>10,320</u>	<u>(67,555)</u>	<u>58,293</u>	<u>(126,565)</u>	<u>64,721</u>
Investing	<u>(13,292)</u>	<u>96,256</u>	<u>(4,595)</u>	<u>(5,175)</u>	<u>1,011</u>	<u>(166)</u>	<u>(16,876)</u>	<u>90,915</u>
Financing	<u>13,974</u>	<u>(84,632)</u>	<u>-</u>	<u>-</u>	<u>54,404</u>	<u>83</u>	<u>68,378</u>	<u>(84,549)</u>
Net (decrease) increase in cash and cash equivalents	<u>(11,668)</u>	<u>7,732</u>	<u>(51,255)</u>	<u>5,145</u>	<u>(12,140)</u>	<u>58,210</u>	<u>(75,063)</u>	<u>71,087</u>

**4 CASH AND CASH EQUIVALENTS**

	2014	2013
	AED'000	AED'000
Current and demand accounts	<u>102,591</u>	<u>143,474</u>
Fixed placements	<u>755,000</u>	<u>745,000</u>
Wakala deposits with banks	<u>25,000</u>	<u>13,100</u>
Call accounts	<u>48,866</u>	<u>191,507</u>
Due from banks	<u>931,457</u>	<u>1,093,081</u>
Cash balances	<u>10,304</u>	<u>9,497</u>
Due from banks with original maturity of more than three months	<u>-</u>	<u>(218,100)</u>
Due to banks with original maturity of less than three months	<u>(64,379)</u>	<u>(67,528)</u>
Net cash and cash equivalents	<u>877,382</u>	<u>816,950</u>

Fixed placements with banks amounting to nil (2013: AED 218,100 thousand) and due to banks amounting to nil (2013: AED 140,000 thousand) are due to mature after three months from the date of placement and are not included in cash and cash equivalents. Fixed placements are made with commercial banks and financial institutions in UAE and carry interest at prevailing market rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**5 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>
<b>2014</b>				
Equity instruments:				
- Quoted	174,918	245,854	-	420,772
- Unquoted	143,877	-	-	143,877
Debt instruments:	-	-	-	-
- Quoted - fixed rate	-	2,523	428,885	431,408
- Unquoted leverage funds	-	-	102,850	102,850
- Unquoted commercial papers	-	-	25,000	25,000
Investment in managed funds	9,023	-	-	9,023
	<u>327,818</u>	<u>248,377</u>	<u>556,735</u>	<u>1,132,930</u>
UAE	318,372	248,377	287,323	854,072
Outside UAE	<u>9,446</u>	<u>-</u>	<u>269,412</u>	<u>278,858</u>
	<u>327,818</u>	<u>248,377</u>	<u>556,735</u>	<u>1,132,930</u>
<b>2013</b>				
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	10,409	-	-	10,409
	<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 December 2014 is AED 563,065 (2013: AED 266,852).

**6 LOANS AND ADVANCES, NET**

	<i>2014 AED '000</i>	<i>2013 AED '000</i>
Commercial loans	1,793,547	1,366,828
Retail finance	<u>336,810</u>	<u>277,543</u>
	2,130,357	1,644,371
Less: allowance for impairment		
Specific	(177,234)	(149,439)
Collective	<u>(21,663)</u>	<u>(16,531)</u>
	<u>1,931,460</u>	<u>1,478,401</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**6 LOANS AND ADVANCES, NET continued**

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

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
At 1 January	165,970	186,512
Charge for the year, net	34,932	37,541
Written off during the year	<u>(2,005)</u>	<u>(58,083)</u>
At 31 December	<u>198,897</u>	<u>165,970</u>

**7 ISLAMIC FINANCING AND INVESTING ASSETS**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Commodities Murabaha	70,761	45,931
Covered card and drawings	34,912	28,114
Purchase and lease back	30,857	19,588
Ijarah	<u>8,364</u>	<u>10,037</u>
	144,894	103,670
Less: allowance for impairment		
Specific	(4,069)	(2,113)
Collective	<u>(2,014)</u>	<u>(1,115)</u>
	<u>138,811</u>	<u>100,442</u>

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

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
At 1 January	3,228	1,887
Charge for the year	<u>2,855</u>	<u>1,341</u>
At 31 December	<u>6,083</u>	<u>3,228</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**7 ISLAMIC FINANCING AND INVESTING ASSETS continued**

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

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<b>Gross Ijara and purchase and lease-back</b>		
Less than one year	15,641	10,960
Between one and three years	16,909	14,140
Between three and five years	13,361	7,752
More than five years	<u>1,320</u>	<u>3,222</u>
	47,231	36,074
Less: deferred income	<u>(8,010)</u>	<u>(6,449)</u>
Net Ijara and purchase and lease-back	<u>39,221</u>	<u>29,625</u>
<b>Net present value of minimum Ijara and purchase and lease-back payments</b>		
Less than one year	12,864	8,624
Between one and three years	13,465	11,421
Between three and five years	11,658	6,574
More than five years	<u>1,234</u>	<u>3,006</u>
	<u>39,221</u>	<u>29,625</u>

**8 INVESTMENT IN AN ASSOCIATE**

The Group has the following investment in an associate

	<i>Country of incorporation</i>	<i>Percentage of holding</i>		<i>Principal activity</i>
		<i>2014</i>	<i>2013</i>	
Mainland Management L.L.C.	United Arab Emirates	33.33%	33.33%	Hospitality management services

The Group's interest in associates is accounted for using the equity method in the consolidated financial statements. Movement in investment in associates is as follows:

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
At 1 January	30,422	43,155
Share of results for the year	(1,915)	(16,070)
Additions during the year (i)	16,000	13,666
Disposed off during the year (ii)	<u>-</u>	<u>(10,329)</u>
At 31 December	<u>44,507</u>	<u>30,422</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**8 INVESTMENT IN AN ASSOCIATE** continued

Summarised financial information of the associate is set out below.

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<i>Associate's statement of financial position</i>		
Assets	<u>227,277</u>	211,553
Liabilities	<u>(93,756)</u>	(120,287)
<b>Net assets</b>	<b><u>133,521</u></b>	<b><u>91,266</u></b>
Group's share of net assets	<u>44,507</u>	<u>30,422</u>
<b>Carrying amount of investment in associates</b>	<b><u>44,507</u></b>	<b><u>30,422</u></b>
<i>Associate's revenue and loss:</i>		
Revenue	<u>35,579</u>	<u>22,003</u>
Loss for the year	<u>(5,745)</u>	<u>(47,850)</u>
<b>Group's share of results for the year</b>	<b><u>(1,915)</u></b>	<b><u>(16,070)</u></b>

- i) During the year, the Group subscribed for its share of additional capital in Mainland Management L.L.C. amounting to AED 16 million (2013: AED 13.666 million). This transaction did not change the Group's ownership percentage in the associate.
- ii) During 2013, the Group disposed off its investment in Universal Hospital L.L.C. Gain on disposal of investment amounting to AED 5,872 thousand was recognised in the consolidated statement of income.

**9 STATUTORY DEPOSIT**

In accordance with the requirement of Federal Law No.6 of 2007, concerning Insurance Companies and Agents, the Group maintains a bank deposit amounting to AED 6,000 thousand (2013: AED 6,000 thousand) and it cannot be utilised without the consent of the UAE Insurance Authority.

## Finance House P.J.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2014

#### 10 PROPERTY, FIXTURES AND EQUIPMENT

	<i>Freehold land AED '000</i>	<i>Furniture fixtures and equipment AED '000</i>	<i>Motor vehicles AED '000</i>
<b>2014</b>			
Cost or valuation:			
At 1 January 2014	85,667	36,339	6,791
Additions during the year	-	3,452	734
Disposals	-	-	(44)
Revaluation prior to transfer to investment properties	-	-	-
Transfer to investment properties (note 12)	(85,667)	-	-
At 31 December 2014	<u>-</u>	<u>39,791</u>	<u>7,481</u>
Accumulated depreciation:			
At 1 January 2014	-	30,592	4,629
Charge for the year	-	2,333	557
Relating to disposals	-	-	(44)
At 31 December 2014	<u>-</u>	<u>32,925</u>	<u>5,142</u>
Net book value:			
At 31 December 2014	<u>-</u>	<u>6,866</u>	<u>2,339</u>
<b>2013</b>			
Cost or valuation:			
At 1 January 2013	85,667	34,753	6,882
Additions during the year	-	1,757	590
Disposals / transfer	-	(171)	(681)
At 31 December 2013	<u>85,667</u>	<u>36,339</u>	<u>6,791</u>
Accumulated depreciation:			
At 1 January 2013	-	27,253	4,816
Charge for the year	-	3,510	494
Relating to disposals / transfer	-	(171)	(681)
At 31 December 2013	<u>-</u>	<u>30,592</u>	<u>4,629</u>
Net book value:			
At 31 December 2013	<u>85,667</u>	<u>5,747</u>	<u>2,162</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**10 PROPERTY, FIXTURES AND EQUIPMENT continued**

The freehold land is a plot of land purchased by the Group on which the Group developed a commercial building with plans to use it as its office premises. The construction of the building was completed during the year. During the year, the Group entered into an agreement to lease the building for a period of 10 years. As a result of the change in use the land and building were transferred from property, fixtures and equipment to investment property at their fair value at the transfer date of AED 290,159 thousand (note 12). Gain on revaluation at the transfer date amounting to AED 3,447 thousand was recognized in revaluation reserve under equity.

The revaluation at the transfer date was carried out by an independent valuer appointed by the Group, using the discounted cash flow method.

**11 INTANGIBLES**

	<i>License</i> <i>AED '000</i>	<i>Goodwill</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>2014</b>			
Carrying value:			
At 1 January 2014	<b>3,918</b>	<b>11,678</b>	<b>15,596</b>
Amortised during the year	<b>(1,306)</b>	<b>-</b>	<b>(1,306)</b>
At 31 December 2014	<b><u>2,612</u></b>	<b><u>11,678</u></b>	<b><u>14,290</u></b>
<b>2013</b>			
Carrying value:			
At 1 January 2013	<b>-</b>	<b>11,678</b>	<b>11,678</b>
Addition during the year	<b>3,918</b>	<b>-</b>	<b>3,918</b>
At 31 December 2013	<b><u>3,918</u></b>	<b><u>11,678</u></b>	<b><u>15,596</u></b>

**License**

This item represents the amount paid by the Group to acquire an existing investment banking license issued by the Central Bank of UAE.

**Goodwill**

Goodwill acquired through business combinations relates to the following subsidiaries:

	<i>Islamic</i> <i>Finance House PJSC</i>		<i>Third Vision</i> <i>Investment L.L.C</i>		<i>Total</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Goodwill	<b><u>6,705</u></b>	<b><u>6,705</u></b>	<b><u>4,973</u></b>	<b><u>4,973</u></b>	<b><u>11,678</u></b>	<b><u>11,678</u></b>

**Impairment testing of goodwill**

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

*Goodwill relating to Islamic Finance House PJSC*

Goodwill arising on the acquisition of Islamic Finance House PJSC has been allocated to the subsidiary as a cash generating unit. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the year the Group has performed a goodwill impairment review based on a forecast of the subsidiary's cash flows. The recoverable amount of the cash generating unit was estimated on the basis of its value in use, which is determined by discounting future cash flows from the continuing operation of the cash generating unit. The discount rate applied to the cash flow projections is 12% and the growth rate used to extrapolate the cash flows beyond the five year period is 3%. Based on the results of the goodwill impairment assessment the Group has concluded that the recoverable amount of the cash generating unit is higher than its carrying value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**11 INTANGIBLES continued****Impairment testing of goodwill continued***Goodwill relating to Third Vision Investment L.L.C*

Goodwill arising on the acquisition of Third Vision Investment L.L.C. has been allocated to the subsidiary as a single cash generating unit. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the year the Group has performed a goodwill impairment review based on the recoverable amount of the cash generating unit. The Group estimated the fair values of the net assets of the subsidiary which primarily consist of investment property and some other assets and liabilities. The fair value of investment property has been determined with reference to the valuation performed by an accredited independent valuer using discounted cash flow method of valuation which is a valuation technique that develops cash flows based on the prevailing market rentals and growth rates, then discounts the cash flows by suitable discount rate to arrive at the present value of the asset and capitalize the exit year market rent with appropriate exit yield. Based on the results of this analysis, the Group has concluded that the recoverable amount of the cash generating unit is higher than its carrying value.

**12 INVESTMENT PROPERTIES**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
At 1 January	81,200	101,563
Transfer from property, fixtures and equipment (note 10)	290,159	-
Disposed during the year	-	(24,069)
Change in fair valuation of investment properties	<u>4,841</u>	<u>3,706</u>
At 31 December	<u>376,200</u>	<u>81,200</u>

Investment properties are stated at fair value, based on the valuation performed by an accredited independent valuer with a recognized and relevant professional qualification and recent experience in the location and category of investment properties being valued.

Following are descriptions of the valuation techniques used and significant unobservable inputs in the valuation;

**i) Commercial Building Al Nahyan Abu Dhabi**

Income method is adopted by the independent valuer for the valuation of this investment property. This method calculates the value of the property by taking the estimated net income of property and capitalising this with an appropriate yield which reflects market sentiment and situation. In this instance, Term and Reversion approach to the Income method is used as subject property is tenanted by a single tenant for the term of 5 years since 2011. Estimated annual market rent income is calculated according to the prevailing market for the reversion. The prime location, maintenance and occupancy levels are also considered.

Significant unobservable inputs used in the valuation are as follows:

	<i>Valuation technique</i>	<i>Significant unobservable input</i>	<i>Range</i>
Investment property	Income method	<i>Estimated annual market rent income</i>	<i>AED 7.6 – 8.7 million</i>
		<i>Yield</i>	<i>8.5% - 9.5%</i>
		<i>Occupancy level</i>	<i>95% - 100%</i>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**12 INVESTMENT PROPERTIES** continued**ii) Commercial Building Community Capital Centre, Al Safarat Area, Abu Dhabi**

Discounted cash flow method is used by the independent valuer for the valuation of this investment property. This method calculates the value of the property by developing cashflows based on the prevailing market rentals and growth rates, then discounts the cash flows by suitable discount rate to arrive at the present value of the asset and capitalises the exit year market rent with appropriate exit yield.

Significant unobservable inputs to the valuation are as follows;

	<i>Valuation technique</i>	<i>Significant unobservable input</i>	<i>Range</i>
Investment property	Discounted cash flow method	Estimated annual market rent income	AED 25 million
		Annual maintenance expenses	8% of gross income
		Growth rate	5%
		Discount rate	10%

**13 INTEREST RECEIVABLE AND OTHER ASSETS**

	<i>2014 AED'000</i>	<i>2013 AED'000</i>
Interest receivable	11,806	9,629
Profit receivable (i)	1,130	746
Prepayments	20,546	15,130
Accounts receivable, net of provision for impairment (ii)	114,475	128,536
Amounts due from customers under construction contracts (note 31)	2,860	11,312
Insurance receivables	53,961	54,063
Re-insurance contract assets	10,749	11,438
Advance for investments	302	302
Other assets	<u>61,912</u>	<u>22,764</u>
	<b><u>277,741</u></b>	<b><u>253,920</u></b>

- (i) Profit receivable relates to the Wakala deposits with banks and financial institutions, Islamic financing and investing assets and Murabaha agreements.
- (ii) As at 31 December 2014, accounts receivable at nominal value of AED 6,196 thousand (2013: AED 8,723 thousand) were impaired and fully provided for.

As at 31 December, the ageing analysis of accounts receivable is as follows:

	<i>Total AED</i>	<i>Neither past due nor impaired AED</i>	<i>Past due but not impaired</i>			
			<i>&lt; 30 days AED</i>	<i>30 – 60 days AED</i>	<i>61 – 90 days AED</i>	<i>&gt;90 days AED</i>
<b>2014</b>	<b>114,475</b>	<b>26,317</b>	<b>18,296</b>	<b>15,504</b>	<b>13,662</b>	<b>40,696</b>
<b>2013</b>	<b>128,536</b>	<b>65,780</b>	<b>57,966</b>	<b>93</b>	<b>-</b>	<b>4,697</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**14 CUSTOMERS' DEPOSITS**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Call and demand deposits	138,794	85,289
Time deposits	2,591,262	1,989,249
Wakala deposits	<u>120,165</u>	<u>103,604</u>
	<u><b>2,850,221</b></u>	<u><b>2,178,142</b></u>

Analysis of customers' deposits by sector is as follows:

Government	948,064	785,365
Corporate	<u>1,902,157</u>	<u>1,392,777</u>
	<u><b>2,850,221</b></u>	<u><b>2,178,142</b></u>

**15 SHORT TERM BORROWINGS**

Short term borrowings include short term notes issued during the year and borrowings from a local commercial bank amounting to AED 80 million and AED 110 million respectively with original maturities of upto 1 year and carrying interest at prevailing market rates.

**16 INTEREST PAYABLE AND OTHER LIABILITIES**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Interest payable	18,148	11,534
Profit payable	557	292
Trade payables	73,517	130,332
Accrued expenses	41,260	59,080
Margin accounts	516,426	438,882
Retention under Istissna	-	604
Unearned premiums	62,243	53,860
Gross claims outstanding	16,337	10,593
Other liabilities	<u>165,336</u>	<u>143,979</u>
	<u><b>893,824</b></u>	<u><b>849,156</b></u>

**17 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% or 6.25% per annum whichever is higher, payable semi annually as periodic distribution amount. Profit distribution accrued as of 31 December 2014 relating to sukuk held by external parties amounted to AED 104 thousand (2013: AED 104 thousand). Sukuk amounting to AED 23.7 million (2013: AED 21 million) were held by subsidiaries of the Group and, accordingly, eliminated in the consolidated statement of financial position.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**18 SHARE CAPITAL**

	<i>Issue and fully paid</i>	
	<b>2014</b>	<b>2013</b>
	<b>AED'000</b>	<b>AED'000</b>
<i>Authorised, issued and fully paid</i>		
302.5 million shares (2013: 302.5 million shares)		
of AED 1 each (2013: AED 1 each)	<b><u>302,500</u></b>	<b><u>302,500</u></b>

**19 EMPLOYEES' SHARE-BASED PAYMENT SCHEME**

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

During the year, no shares (2013: nil shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2014 were 1,750 thousand (31 December 2013: 1,750 thousand).

**20 STATUTORY RESERVE**

In line with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984, (as amended) and the Company's Articles of Association, the Company is required to transfer annually to a statutory reserve account an amount equivalent to 10% of its profit, until such reserve reaches 50% of the share capital of the Company. The statutory reserve is not available for distribution.

**21 DIVIDEND**

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 during the year.

**22 TREASURY SHARES**

Treasury shares represent the cost of 2,582 thousand shares of the Company held by the company and a subsidiary as at 31 December 2014 (2013: 2,041 thousand shares).

	<b>2014</b>		<b>2013</b>	
	<i>Number of shares</i>	<i>AED'000</i>	<i>Number of shares</i>	<i>AED'000</i>
Share held by Finance House PJSC	<b>472</b>	<b>1,719</b>	-	-
Share held by Insurance House PJSC	<b><u>2,135</u></b>	<b><u>7,544</u></b>	<b><u>2,041</u></b>	<b><u>7,213</u></b>
	<b><u>2,607</u></b>	<b><u>9,263</u></b>	<b><u>2,041</u></b>	<b><u>7,213</u></b>

During the year, the Company obtained the necessary regulatory approvals to undertake a share buy-back programme. A total of 472 thousand shares were purchased from the market at an average price of 3.64 per share amounting to AED 1,719 thousand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 23 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 year end:

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Letters of credit	105,105	45,540
Letters of guarantee	1,075,651	1,014,802
Capital commitments	7,357	70,838
Irrevocable commitments to extend credit	<u>185,301</u>	<u>143,442</u>
	<u>1,373,414</u>	<u>1,274,622</u>

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

### 24 NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Due from banks	13,231	10,326
Loans and advances	150,825	139,079
Income from Islamic financing and investing assets	12,806	9,886
Others	<u>22,561</u>	<u>18,442</u>
<b>Interest income and income from Islamic financing and investing assets</b>	<u>199,423</u>	<u>177,733</u>
Customer deposits	(47,436)	(40,211)
Profit distributable to depositors	(2,477)	(2,688)
Due to banks	<u>(3,920)</u>	<u>(6,435)</u>
<b>Interest expense and profit distributable to depositors</b>	<u>(53,833)</u>	<u>(49,334)</u>
<b>Net interest income and income from Islamic financing and investing assets</b>	<u>145,590</u>	<u>128,399</u>

No interest income is recognised on impaired loans and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**25 NET FEE AND COMMISSION INCOME**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<b>Fee and commission income</b>		
Corporate and commercial finance activities	45,892	26,875
Retail finance activities	<u>25,292</u>	<u>26,925</u>
	<u>71,184</u>	<u>53,800</u>
<b>Fee and commission expense</b>	<u>(12,059)</u>	<u>(10,324)</u>
<b>Net fee and commission income</b>	<u>59,125</u>	<u>43,476</u>

**26 NET CONTRACT INCOME (LOSS)**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Contract revenue	10,908	7,437
Contract costs	<u>(3,407)</u>	<u>(9,514)</u>
<b>Net contract income (loss)</b>	<u>7,501</u>	<u>(2,077)</u>

During the year, one of the Group's subsidiary was awarded contract claims amounting to AED 10.8 million from a major customer.

**27 NET INSURANCE (EXPENSE) INCOME**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<b>Net insurance premiums earned</b>		
Gross premiums written	92,850	94,085
Change in unearned premium provision	<u>(12,949)</u>	<u>(15,650)</u>
<b>Premium income earned</b>	<u>79,901</u>	<u>78,435</u>
Re-insurance premiums ceded	<u>(27,048)</u>	<u>(28,708)</u>
Change in re-insurance portion of unearned premium provision	<u>12,763</u>	<u>11,438</u>
<b>Re-insurance premium ceded</b>	<u>(14,285)</u>	<u>(17,270)</u>
	<u>65,616</u>	<u>61,165</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

## 27 NET INSURANCE (EXPENSE) INCOME continued

	2014 AED'000	2013 AED'000
<b>Net insurance claims incurred</b>		
Claims paid	(93,707)	(66,173)
Outstanding claims expenses	(3,158)	(1,596)
Movements in reserves	(5,781)	(3,513)
Claims recovered from re-insurers	<u>27,157</u>	<u>26,409</u>
	<u>(75,489)</u>	<u>(44,873)</u>
<b>Net insurance commission expense</b>		
Insurance commission income	3,141	1,516
Insurance commission expense	<u>(7,431)</u>	<u>(11,472)</u>
	<u>(4,290)</u>	<u>(9,956)</u>
<b>Net insurance (expense) income</b>	<u>(14,163)</u>	<u>6,336</u>

## 28 NET INCOME FROM INVESTMENTS

	2014 AED'000	2013 AED'000
Gain on disposal of investments carried at fair value through profit or loss	90,239	14,231
Change in fair value of investments carried at fair value through profit or loss	(36,734)	62,151
Dividends from investments carried at fair value through profit or loss	<u>2,296</u>	<u>2,973</u>
Net income from investments carried at fair value through profit or loss	55,801	79,355
Dividend income from investments carried at fair value through other comprehensive income	13,513	10,698
Loss on disposal of investments carried at amortised cost	<u>(972)</u>	<u>(759)</u>
<b>Net income from investments</b>	<u>68,342</u>	<u>89,294</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**29 BASIC AND DILUTED EARNINGS PER SHARE**

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As of 31 December 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 basic and diluted earnings per share is based on the following data:

	<i>2014</i>	<i>2013</i>
Profit for the year attributable to equity holders of the parent (AED '000)	<u>80,683</u>	<u>76,853</u>
Number of ordinary shares in issue ('000)	302,500	302,500
Less: Treasury shares ('000)	(2,607)	(2,041)
Less: Employees' share-based payment scheme ('000)	<u>(1,750)</u>	<u>(1,750)</u>
	<u>298,143</u>	<u>298,709</u>
Earnings per share (AED)	<u>0.27</u>	<u>0.26</u>

**30 RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<i>Loans and advances</i>		
To key management staff	<u>412</u>	<u>343</u>
To others	<u>25,349</u>	<u>46,492</u>
<i>Other assets</i>		
To others	<u>-</u>	<u>38,000</u>
<i>Customers' deposits</i>		
From others	<u>7,466</u>	<u>9,590</u>
Significant transactions with related parties during the year were as follows:		
<i>Interest income</i>		
From key management	<u>9</u>	<u>4</u>
From others	<u>359</u>	<u>1,154</u>
<i>Interest expense</i>		
To others	<u>25</u>	<u>40</u>
<i>Key management remuneration</i>		
Short term benefits (salaries, benefits and bonuses)	<u>22,038</u>	<u>21,598</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**31 CONSTRUCTION CONTRACTS**

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Construction costs incurred plus recognized profits		
less recognised losses to date	<b>725,288</b>	720,531
Less : progress billings to date	<b><u>722,428</u></b>	<u>709,219</u>
	<b><u>2,860</u></b>	<u>11,312</u>
Recognised and included in the consolidated financial statements as amounts due from customers under construction contracts (note 13)	<b><u>2,860</u></b>	<u>11,312</u>

At 31 December 2014, retentions held by customers for contract work amounted to AED 100 thousand (2013: AED 21,960 thousand). Advances received from customers for contract work amounted to AED 22,573 thousand (2013: AED 18,540 thousand).

**32 SEGMENTAL 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.



# Finance House P.J.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2014

### 32 SEGMENTAL INFORMATION continued

#### 32.1 Products and services from which reportable segments derive their revenues

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

	Year ended 31 December 2014							
	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
Interest income and income from Islamic financing and investing assets	163,848	14,596	12,806	-	3,338	4,835	-	199,423
Interest expense and profit distributable to depositors	(46,150)	(2,901)	(2,477)	-	(2,305)	-	-	(53,833)
Net fee and commission income	36,777	-	1,217	-	21,131	-	-	59,125
Net contract income	-	-	-	7,501	-	-	-	7,501
Net insurance expense	-	-	-	-	-	(14,163)	-	(14,163)
Profit distributable to sukuk holders	-	(7,894)	-	-	-	-	-	(7,894)
Net investment income	-	68,342	-	-	-	-	-	68,342
Share of results of an associate	-	(1,915)	-	-	-	-	-	(1,915)
Other operating income	5,252	20,915	-	731	3	526	-	27,427
<b>Total operating income (expense)</b>	<b>159,727</b>	<b>91,143</b>	<b>11,546</b>	<b>8,232</b>	<b>22,167</b>	<b>(8,802)</b>	<b>-</b>	<b>284,013</b>
Depreciation of property, fixtures and equipment	-	(74)	(397)	(165)	(393)	(1,009)	(3,018)	(5,056)
Other expenses and charges	(38,532)	(15,002)	(8,836)	(4,426)	(10,225)	(17,305)	(73,520)	(167,846)
<b>Total expenses and other charges</b>	<b>(38,532)</b>	<b>(15,076)</b>	<b>(9,233)</b>	<b>(4,591)</b>	<b>(10,618)</b>	<b>(18,314)</b>	<b>(76,538)</b>	<b>(172,902)</b>
<b>Profit (loss) for the year before impairment</b>	<b>121,195</b>	<b>76,067</b>	<b>2,313</b>	<b>3,641</b>	<b>11,549</b>	<b>(27,116)</b>	<b>(76,538)</b>	<b>111,111</b>
Allowance for impairment of loans and advances, net	(34,932)	-	-	-	-	-	-	(34,932)
Allowance for impairment of Islamic financing and investing assets	-	-	(2,855)	-	-	-	-	(2,855)
<b>Profit (loss) for the year after impairment</b>	<b>86,263</b>	<b>76,067</b>	<b>(542)</b>	<b>3,641</b>	<b>11,549</b>	<b>(27,116)</b>	<b>(76,538)</b>	<b>73,324</b>
Segmental assets	1,992,810	2,137,069	296,338	28,654	163,135	259,115	-	4,877,121
Segmental liabilities	1,950,533	1,717,922	193,171	40,505	91,507	139,912	-	4,133,550
Additions to non-current assets during the year	-	511	241	9,693	956	928	4,778	17,107

# Finance House P.J.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2014

### 32 SEGMENTAL INFORMATION continued

#### 32.1 Products and services from which reportable segments derive their revenues continued

	Year ended 31 December 2013						
	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
Interest income and income from Islamic financing and investing assets	147,159	14,340	9,886	-	-	6,348	-
Interest expense and profit distributable to depositors	(38,790)	(7,194)	(2,688)	-	-	(662)	-
Net fee and commission income	30,419	-	349	-	12,708	-	-
Net contract loss	-	-	-	(2,077)	-	-	-
Net insurance income	-	-	-	-	-	6,336	-
Profit distributable to sukuk holders	(8,063)	-	-	-	-	-	-
Net investment income	-	89,294	-	-	-	-	-
Share of results of an associate	-	(16,070)	-	-	-	-	-
Other operating income (expense)	1,796	21,786	(41)	29	25	1,530	-
<b>Total operating income (expense)</b>	<b>132,521</b>	<b>102,156</b>	<b>7,506</b>	<b>(2,048)</b>	<b>12,733</b>	<b>13,552</b>	<b>266,420</b>
Depreciation of property, fixtures and equipment	-	-	(422)	(1,585)	(246)	(826)	(6,071)
Other expenses and charges	(30,679)	(5,219)	(7,168)	(4,504)	(9,689)	(18,105)	(62,397)
<b>Total expenses and other charges</b>	<b>(30,679)</b>	<b>(5,219)</b>	<b>(7,590)</b>	<b>(6,089)</b>	<b>(9,935)</b>	<b>(18,931)</b>	<b>(143,832)</b>
<b>Profit (loss) for the year before impairment</b>	<b>101,842</b>	<b>96,937</b>	<b>(84)</b>	<b>(8,137)</b>	<b>2,798</b>	<b>(5,379)</b>	<b>122,588</b>
Allowance for impairment of loans and advances, net	(37,541)	-	-	-	-	-	(37,541)
Allowance for impairment of Islamic financing and investing assets	-	-	(1,341)	-	-	-	(1,341)
<b>Profit (loss) for the year after impairment</b>	<b>64,301</b>	<b>96,937</b>	<b>(1,425)</b>	<b>(8,137)</b>	<b>2,798</b>	<b>(5,379)</b>	<b>83,706</b>
Segmental assets	1,517,342	1,889,468	247,371	40,741	151,191	254,608	4,100,721
Segmental liabilities	1,476,762	1,430,099	145,331	85,734	119,444	114,338	3,371,708
Additions to non-current assets during the year	-	6,840	110	4,687	17	944	62,580

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**32 SEGMENTAL INFORMATION** continued

**32.1 Products and services from which reportable segments derive their revenues** continued

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

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

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

**32.2 Geographical information**

The Group primarily operates in the U.A.E. (country of domicile).

**32.3 Information about major customers**

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

**33 RISK MANAGEMENT**

**33.1 Introduction**

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

**Risk management structure**

In line with the best practice followed in world class financial institutions the overall risk management responsibility lies with the Board of Directors of the Group, under which there is a Board Investment and Credit Committee (BICC) comprising of six board members and the Chief Risk Officer who take responsibility for identifying and controlling the risks.

*Board of Directors*

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

*Audit Committee*

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**33 RISK MANAGEMENT** continued

**33.1 Introduction** continued

*Asset Liability Committee*

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

*Board Investment and Credit Committee*

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

*Risk Management Unit (RMU)*

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

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

*Treasury*

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

*Internal Audit*

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

**Risk measurement and reporting systems**

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RMU, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RMU receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 33 RISK MANAGEMENT continued

#### 33.1 Introduction continued

##### **Risk mitigation**

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

The Group actively uses collateral to reduce its credit risks.

##### **Risk concentration**

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

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

Details of the composition of the loans, advances and Islamic financing and investing portfolio are provided in notes 6 and 7. Information on credit risk relating to investments is provided in note 33.3.

#### 33.2 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, and prices of equity and fixed income securities.

##### *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 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 one year, based on the floating rate financial assets and financial liabilities held at 31 December 2014.

	<i>Effect on profit</i> <i>AED 000</i>
<b>2014</b>	
+100 increase in basis point	<b>15,920</b>
-100 decrease in basis point	<b>(15,920)</b>
<b>2013</b>	
+100 increase in basis point	14,266
-100 decrease in basis point	(14,266)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**33 RISK MANAGEMENT** continued**33.2 Market risk** continued*Currency risk*

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

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

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

	<i>Assumed level of change</i>	<i>Impact on net income 2014 AED 000</i>	<i>Impact on net income 2013 AED 000</i>
	%		
<b>Investments carried at fair value through profit or loss</b>			
Abu Dhabi Securities Market Index	2%	2,443	2,003
Dubai Financial Market Index	2%	2,474	1,975
Fixed income securities	2%	50	49

The effect on equity (as a result of a change in the fair value of equity instruments carried at fair value through other comprehensive income) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows.

	<i>Assumed level of change</i>	<i>Impact on equity 2014 AED 000</i>	<i>Impact on equity 2013 AED 000</i>
	%		
<b>Investments carried at fair value through other comprehensive income</b>			
Abu Dhabi Securities Market Index	2%	2,644	1,472
Dubai Financial Market Index	2%	837	475
Amman Stock Exchange	2%	18	21

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**33 RISK MANAGEMENT** continued**33.3 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

*Credit-related commitments risks*

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

**Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	<i>Gross maximum exposure 2014 AED'000</i>	<i>Gross maximum exposure 2013 AED'000</i>
Balances with U.A.E. Central Bank	9,455	12,129
Due from banks and financial institutions	922,002	1,080,952
Loans and advances	1,931,460	1,478,401
Islamic financing and investing assets	138,811	100,442
Investments (debt instruments)	559,258	286,923
Statutory deposit	6,000	6,000
Other assets subject to credit risk	<u>256,893</u>	<u>238,488</u>
	<b>3,823,879</b>	<b>3,203,335</b>
Contingent liabilities	1,180,756	1,060,342
Commitments	<u>185,301</u>	<u>143,442</u>
Total	<b><u>5,189,936</u></b>	<b><u>4,407,119</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**33 RISK MANAGEMENT** continued**33.3 Credit risk** continued**Credit risk concentration**

Concentration of risk is managed by customer / counterparty, by geographical region and by industry sector. The funded and non-funded credit exposure to the top 5 borrowers as of 31 December 2014 was AED 389,762 thousand (2013: AED 288,672 thousand) before taking account of collateral or other credit enhancements and AED 55,460 thousand (2013: AED 41,663 thousand) net of such protection, respectively.

The distribution of the Group's financial assets by geographic region and industry sector is as follows:

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<i>Geographic region</i>		
U.A.E.	3,487,344	3,087,356
Other Arab countries	117,319	41,658
Europe	121,883	5,202
U.S.A.	7,376	38,921
Rest of the world	<u>89,957</u>	<u>30,198</u>
Financial assets subject to credit risk	<u><b>3,823,879</b></u>	<u><b>3,203,335</b></u>
<i>Industry sector</i>		
Commercial and business	1,871,562	1,340,028
Personal	294,920	238,815
Banks and financial institutions	931,457	1,093,081
Others	<u>725,940</u>	<u>531,411</u>
Financial assets subject to credit risk	<u><b>3,823,879</b></u>	<u><b>3,203,335</b></u>

**Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities
- For personal lending, against post dated cheques and security cheques

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses. Management estimates the fair value of collaterals and other credit enhancements held against individually impaired financing assets approximating to be AED 48,610 thousand as at 31 December 2014 (2013: AED 49,100 thousand).

It is the Group's policy to dispose of repossessed assets, other than investment properties, in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**33 RISK MANAGEMENT** continued**33.3 Credit risk** continued**Credit quality per class of financial assets**

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system. The amounts presented are net of impairment provisions.

	<i>Neither past due nor impaired</i>		<i>Past due or individually impaired</i>	<i>Total</i>
	<i>Pass grade AED 000</i>	<i>Watch grade AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
<b>2014</b>				
Cash and balances with U.A.E. Central Bank	19,759	-	-	19,759
Due from banks and financial institutions	922,002	-	-	922,002
Loans and advances	1,833,365	22,755	75,340	1,931,460
Islamic financial and investing assets	137,597	-	1,214	138,811
Investments (debt instruments)	559,258	-	-	559,258
Statutory deposit	6,000	-	-	6,000
Other assets	256,893	-	-	256,893
<b>Total</b>	<b>3,734,874</b>	<b>22,755</b>	<b>76,554</b>	<b>3,834,183</b>
<b>2013</b>				
Cash and balances with U.A.E. Central Bank	21,626	-	-	21,626
Due from banks and financial institutions	1,080,952	-	-	1,080,952
Loans and advances	1,363,641	44,579	70,181	1,478,401
Islamic financing and investing assets	97,379	-	3,063	100,442
Investments (debt instruments)	286,923	-	-	286,923
Statutory deposit	6,000	-	-	6,000
Other assets	238,488	-	-	238,488
<b>Total</b>	<b>3,095,009</b>	<b>44,579</b>	<b>73,244</b>	<b>3,212,832</b>

An analysis of past due loans and Islamic financing and investing assets, by age, is provided below.

**Aging analysis of past due or impaired loans and Islamic financing and investing assets**

	<i>Less than 30 days AED 000</i>	<i>31 to 60 days AED 000</i>	<i>61 to 90 days AED 000</i>	<i>More than 91 days AED 000</i>	<i>Total AED 000</i>
<b>2014</b>					
Past due but not impaired	15,284	7,695	4,753	645	28,377
Impaired	-	-	-	48,177	48,177
<b>Total past due or impaired</b>	<b>15,284</b>	<b>7,695</b>	<b>4,753</b>	<b>48,822</b>	<b>76,554</b>
<b>2013</b>					
Past due but not impaired	6,858	6,059	952	9,253	23,122
Impaired	-	-	-	50,122	50,122
<b>Total past due or impaired</b>	<b>6,858</b>	<b>6,059</b>	<b>952</b>	<b>59,375</b>	<b>73,244</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**33 RISK MANAGEMENT continued****33.4 Liquidity risk and funding management**

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

**Analysis of financial assets and financial liabilities by remaining contractual maturities**

The table below summarises the maturity profile of the Group's assets and liabilities at 31 December 2014 based on contractual maturities.

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 year to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
<b>ASSETS</b>					
Cash and balances with U.A.E. Central Bank	19,759	-	-	-	19,759
Due from banks and financial institutions	919,734	2,268	-	-	922,002
Loans and advances, net	1,001,116	194,106	541,465	194,773	1,931,460
Islamic financing and investing assets	35,325	30,716	72,584	186	138,811
Investments, including associate	298,528	27,000	372,376	479,533	1,177,437
Statutory deposit	-	-	-	6,000	6,000
Other assets	<u>220,145</u>	<u>36,748</u>	<u>-</u>	<u>-</u>	<u>256,893</u>
Financial assets	2,494,607	290,838	986,425	680,492	4,452,362
Non-financial assets	<u>20,848</u>	<u>-</u>	<u>308,421</u>	<u>95,490</u>	<u>424,759</u>
<b>Total assets</b>	<b>2,515,455</b>	<b>290,838</b>	<b>1,294,846</b>	<b>775,982</b>	<b>4,877,121</b>
<b>LIABILITIES</b>					
Due to banks	64,379	-	-	-	64,379
Customers' deposits	1,240,848	1,588,006	21,367	-	2,850,221
Term loans	5,000	185,000	-	-	190,000
Other liabilities	<u>98,210</u>	<u>123,693</u>	<u>651,903</u>	<u>42,815</u>	<u>916,621</u>
Financial liabilities	1,408,437	1,896,699	673,270	42,815	4,021,221
Non-financial liabilities	<u>112,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,329</u>
<b>Total liabilities</b>	<b>1,520,766</b>	<b>1,896,699</b>	<b>673,270</b>	<b>42,815</b>	<b>4,133,550</b>

The maturity profile of the Group's assets and liabilities at 31 December 2013 was as follows:

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 year to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
<b>ASSETS</b>					
Cash and balances with U.A.E. Central Bank	21,626	-	-	-	21,626
Due from banks and financial institutions	1,080,952	-	-	-	1,080,952
Loans and advances, net	784,349	302,624	361,154	30,274	1,478,401
Islamic financing and investing assets	31,394	23,020	43,022	3,006	100,442
Investments, including associate	245,569	27,000	131,433	370,500	774,502
Statutory deposit	-	-	-	6,000	6,000
Other assets	<u>203,471</u>	<u>35,017</u>	<u>-</u>	<u>-</u>	<u>238,488</u>
Financial assets	2,367,361	387,661	535,609	409,780	3,700,411
Non-financial assets	<u>15,432</u>	<u>-</u>	<u>288,082</u>	<u>96,796</u>	<u>400,310</u>
<b>Total assets</b>	<b>2,382,793</b>	<b>387,661</b>	<b>823,691</b>	<b>506,576</b>	<b>4,100,721</b>
<b>LIABILITIES</b>					
Due to banks	67,528	140,000	-	-	207,528
Customers' deposits	1,278,705	866,937	32,500	-	2,178,142
Other liabilities	<u>133,153</u>	<u>83,651</u>	<u>648,412</u>	<u>-</u>	<u>865,216</u>
Financial liabilities	1,479,386	1,090,588	680,912	-	3,250,886
Non-financial liabilities	<u>120,822</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,822</u>
<b>Total liabilities</b>	<b>1,600,208</b>	<b>1,090,588</b>	<b>680,912</b>	<b>-</b>	<b>3,371,708</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**33 RISK MANAGEMENT** continued**33.4 Liquidity risk and funding management** continued**Analysis of financial assets and financial liabilities by remaining contractual maturities** continued

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	<i>Less than 3 months AED 000</i>	<i>3 to 12 months AED 000</i>	<i>1 to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
<b>2014</b>					
Contingent liabilities	<b>901,310</b>	<b>252,132</b>	<b>25,845</b>	<b>1,469</b>	<b>1,180,756</b>
Commitments	<u><b>192,658</b></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>192,658</b></u>
Total	<u><b>1,093,968</b></u>	<u><b>252,132</b></u>	<u><b>25,845</b></u>	<u><b>1,469</b></u>	<u><b>1,373,414</b></u>
<b>2013</b>					
Contingent liabilities	831,405	202,726	26,211	-	1,060,342
Commitments	<u>214,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,280</u>
Total	<u><b>1,045,685</b></u>	<u><b>202,726</b></u>	<u><b>26,211</b></u>	<u><b>-</b></u>	<u><b>1,274,622</b></u>

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

**33.5 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 to potential risks, the Group is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorisation and reconciliation procedures, staff training and robust assessment processes. The processes are reviewed by risk management and internal audit on an ongoing basis.

**33.6 Insurance risk**

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ 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 minimize its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 34 FAIR VALUE MEASUREMENT

While the Group prepares its 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 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 for the year ended 31 December 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>
<b>ASSETS MEASURED AT FAIR VALUE</b>					
Investment properties	17 December 2014	<u>—</u>	<u>—</u>	<u>376,200</u>	<u>376,200</u>
<i>At fair value through profit or loss</i>					
Quoted equities	31 December 2014	<u>245,854</u>	<u>—</u>	<u>—</u>	<u>245,854</u>
Quoted debt instruments	31 December 2014	<u>2,523</u>	<u>—</u>	<u>—</u>	<u>2,523</u>
		<u>248,377</u>	<u>—</u>	<u>—</u>	<u>248,377</u>
<i>At fair value through other comprehensive income</i>					
Quoted equities	31 December 2014	<u>174,918</u>	<u>—</u>	<u>—</u>	<u>174,918</u>
Unquoted equities	31 December 2014	<u>—</u>	<u>17,578</u>	<u>126,299</u>	<u>143,877</u>
Investment in managed funds	31 December 2014	<u>—</u>	<u>9,023</u>	<u>—</u>	<u>9,023</u>
		<u>174,918</u>	<u>26,601</u>	<u>126,299</u>	<u>327,818</u>
<b>ASSETS FOR WHICH FAIR VALUE IS DISCLOSED</b>					
Investment carried at amortised cost	31 December 2014	<u>433,928</u>	<u>129,137</u>	<u>—</u>	<u>563,065</u>

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy for the year ended 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>
<b>ASSETS MEASURED AT FAIR VALUE</b>					
Investment property	15 December 2013	<u>—</u>	<u>—</u>	<u>81,200</u>	<u>81,200</u>
Property, fixtures and equipment (land)	31 December 2012	<u>—</u>	<u>85,667</u>	<u>—</u>	<u>85,667</u>
<i>At fair value through profit or loss</i>					
Quoted equities	31 December 2013	<u>198,917</u>	<u>—</u>	<u>—</u>	<u>198,917</u>
Quoted debt instruments	31 December 2013	<u>2,438</u>	<u>—</u>	<u>—</u>	<u>2,438</u>
		<u>201,355</u>	<u>—</u>	<u>—</u>	<u>201,355</u>
<i>At fair value through other comprehensive income</i>					
Quoted equities	31 December 2013	<u>98,415</u>	<u>—</u>	<u>—</u>	<u>98,415</u>
Unquoted equities	31 December 2013	<u>—</u>	<u>54,303</u>	<u>95,113</u>	<u>149,416</u>
Investment in managed funds	31 December 2013	<u>—</u>	<u>10,409</u>	<u>—</u>	<u>10,409</u>
		<u>98,415</u>	<u>64,712</u>	<u>95,113</u>	<u>258,240</u>
<b>ASSETS FOR WHICH FAIR VALUE IS DISCLOSED</b>					
Investment carried at amortised cost	31 December 2013	<u>266,852</u>	<u>—</u>	<u>—</u>	<u>266,852</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**34 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.

***Investment properties***

Investment properties are stated at fair value, based on the valuation performed by an accredited independent valuer with a recognized and relevant professional qualification and recent experience in the location and category of investment properties being valued. For details of valuation techniques and significant unobservable inputs, refer to note 12.

***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 Range unobservable inputs to valuation</i>	<i>Sensitivity (Weighted average)</i>	<i>of the input to fair value</i>
Unquoted equities	DCF Method	<i>Long term growth rate 2%</i>	1% increase (decrease) in the	long term growth rate would result in increase (decrease) in the fair value by AED 8.3 million and (AED 7.1 million) respectively.
		<i>Discount rate</i>	15%	1% increase (decrease) in the discount rate would result in (decrease) increase in fair value by (AED 15.8 million) and AED 18.2 million respectively.
		<i>Growth rate 4% - 6% in revenue projections</i>	1% increase (decrease) in the	growth rates in cash flows would result in increase (decrease) in fair value by AED 71.5 million and (AED 68.0 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 5.7 million and (AED 5.6 million) respectively.

**Transfers between categories**

During the year, 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**35 CAPITAL ADEQUACY*****Capital management***

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

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

The capital adequacy ratio calculated in accordance with the U.A.E. Central Bank's guidelines for commercial banks is as follows:

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Total capital base	<u>826,724</u>	<u>833,148</u>
Risk weighted assets:		
Statement of financial position items	<u>3,596,891</u>	<u>3,021,461</u>
Off statement of financial position exposures	<u>407,316</u>	<u>364,951</u>
Total risk weighted assets	<u>4,004,207</u>	<u>3,386,412</u>
Total assets ratio (%)	<u>20.6%</u>	<u>24.6%</u>

**36 SEASONALITY OF RESULTS**

No income of a seasonal nature was recorded in the consolidated income statement for the year ended 31 December 2014 and 31 December 2013.