Finance House P.J.S.C.

Condensed Interim Consolidated
Financial Statements
for the nine months ended 30 September 2016

Finance House P.J.S.C.

Condensed Interim Consolidated Financial Statements
For the Nine months ended 30 September 2016

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Review report to the Directors of Finance House P.J.S.C.

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Finance House P.J.S.C ("the Company") and its subsidiaries (together referred to as "the Group") as at 30 September 2016 and the related condensed interim consolidated statements of income and comprehensive income for the nine and three month periods then ended and condensed interim consolidated statements of changes in equity and cash flows for the nine month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim consolidated financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed interim consolidated financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting.

PricewaterhouseCoopers
27/October/2016

Jacques E. Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

Finance House P.J.S.C.

Condensed interim consolidated statement of financial position

	Note	At 30 September 2016 AED'000	At 31 December 2015 AED'000
ASSETS			
Cash balances	8	**10,270**	7,402
Due from banks	8	**771,523**	1,278,043
Investments carried at fair value through other comprehensive income	9	**704,719**	682,491
Investments carried at fair value through profit or loss	9	**226,079**	255,744
Investments carried at amortised cost	9	**146,944**	167,193
Loans and advances	10.1	**2,093,180**	2,102,534
Islamic financing and investing assets	10.2	**191,756**	201,189
Investment in an associate		**51,139**	51,687
Statutory deposit		**6,000**	6,000
Property, fixtures and equipment		**15,730**	15,638
Intangibles		**7,946**	8,533
Interest receivable and other assets		**152,498**	139,382
		4,377,784	4,915,836
Assets classified as held for sale		**126,015**	126,015
Total assets		**4,503,799**	5,041,851
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits and margin accounts	11	**2,934,337**	3,245,675
Due to banks	8	**18,911**	73,307
Short term borrowings		**180,178**	340,000
Medium term loan		**100,000**	137,500
Interest payable and other liabilities		**266,860**	250,517
Provision for employees' end of service benefits		**10,890**	10,765
		3,511,176	4,057,764
Liabilities directly associated with assets classified as held for sale		**29,902**	29,902
Total liabilities		**3,541,078**	4,087,666

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Finance House P.J.S.C.

Condensed interim consolidated statement of financial position (continued)

		At 30 September 2016 AED'000	At 31 December 2015 AED'000
EQUITY			
Share capital	12	**310,050**	310,050
Treasury shares	13	**(10,565)**	(9,750)
Employees' share-based payment scheme	15	**(1,750)**	(1,750)
Statutory reserve		**138,722**	138,722
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		**12,372**	(57,858)
Retained earnings		**144,883**	196,234
Tier 1 Sukuk		**294,700**	297,850
Proposed directors' remuneration		**-**	5,371
		888,412	878,869
Non-controlling interests		**74,309**	75,316
Net equity		**962,721**	954,185
Total liabilities and equity		**4,503,799**	5,041,851
Commitments and contingent liabilities	16	**1,900,717**	1,804,985

....
Mr. Mohammed Alqubaisi
Chairman

....
Mr. Hamid Taylor
General Manager

Finance House P.J.S.C.

Condensed interim consolidated income statement

	Notes	Three months ended 30 September 2016 AED'000	2015 AED'000	Nine months ended 30 September 2016 AED' 000	2015 AED '000
Interest income and income from Islamic financing and investing assets	5	**74,666**	56,602	**209,189**	169,396
Interest expense and profit distributable to depositors	5	**(16,755)**	(13,361)	**(44,890)**	(44,002)
Net interest income and income from Islamic financing and investing assets	5	**57,911**	43,241	**164,299**	125,394
Net income from tier 1 capital instruments		**6,045**	5,998	**19,093**	17,227
Net interest income, income from Islamic financing and investing assets and net income from tier 1 capital instruments		**63,956**	49,239	**183,392**	142,621
Net fee and commission income		**11,826**	11,620	**36,404**	33,888
Net contract expense		**-**	(516)	**(91)**	(1,594)
Net insurance (loss)/income		**(1,937)**	790	**6,982**	3,250
Profit distributable to sukuk holders		**-**	(1,182)	**-**	(5,129)
Net (loss)/income from investments	6	**(491)**	(3,501)	**27,709**	39,011
Net income from investment property		**1,600**	8,876	**6,064**	26,560
Share of (loss)/income of associate		**(772)**	(37)	**(549)**	7,668
Other operating income, net		**1,060**	778	**13,176**	3,154
Total operating income		**75,242**	66,067	**273,087**	249,429
Salaries and employee related expenses		**(31,886)**	(30,776)	**(95,634)**	(87,891)
Depreciation of property, fixtures and equipment		**(1,759)**	(1,154)	**(5,500)**	(4,595)
Amortisation of intangibles		**(196)**	(196)	**(588)**	(588)
General and administrative expenses		**(14,627)**	(17,669)	**(52,654)**	(49,386)
Net allowance for impairment of loans and advances and recoveries	10.1	**(16,507)**	(16,180)	**(58,524)**	(38,776)
Net allowance for impairment of Islamic financing and investing assets and recoveries	10.2	**(4,050)**	(1,671)	**(22,317)**	(3,536)
Total operating expenses and allowances		**(69,025)**	(67,646)	**(235,217)**	(184,772)
Profit/(loss) for the period		**6,217**	(1,579)	**37,870**	64,657
Attributable to:					
Equity holders of the parent		**8,397**	793	**40,563**	69,577
Non-controlling interests		**(2,180)**	(2,372)	**(2,693)**	(4,920)
		6,217	(1,579)	**37,870**	64,657
Basic and diluted earnings per share attributable to ordinary shares (AED)	7	**0.01**	0.00	**0.08**	0.23

The notes on pages 9 to 29 form an integral part of these financial statements

Finance House P.J.S.C.

Condensed interim consolidated statement of comprehensive income

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000
Profit/(loss) for the period	**6,217**	(1,579)	**37,870**	64,657
Other comprehensive income:				
Items that will not be reclassified to income statement:				
Change in fair value of financial assets measured at fair value through other comprehensive income	**6,378**	(7,389)	**27,807**	(396)
Directors' remuneration paid		-	**(5,371)**	(6,249)
	6,378	(7,389)	**22,436**	(6,645)
Other comprehensive income/(loss) for the period	**6,378**	(7,389)	**22,436**	(6,645)
Total comprehensive income/(loss) for the period	**12,595**	(8,968)	**60,306**	58,012
Attributable to:				
Equity holders of the parent	**14,488**	(5,949)	**61,306**	63,814
Non-controlling interests	**(1,893)**	(3,019)	**(1,000)**	(5,802)
	12,595	(8,968)	**60,306**	58,012

Condensed interim consolidated statement of changes in equity

	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	Tier 1 Sukuk AED'000	Attributable to shareholders of the parent company AED'000	Non controlling interest AED'000	Total AED'000
Balance at 1 January 2015 s	302,500	(9,263)	(1,750)	131,865	22,409	(32,714)	138,208	6,249		557,504	138,286	695,790
Profit on disposal of investments carried at fair value through other comprehensive income						4,370	(4,370)	-	-	-	23	23
Profit for the period	-	-	-	-	-	-	69,577	-	-	69,577	(4,920)	64,657
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	486	-	-	-	486	(882)	(396)
Directors' remuneration paid	-	-	-	-	-	-	-	(6,249)	-	(6,249)	-	(6,249)
Total comprehensive income/(loss) for the period	-	-	-	-	-	486	69,577	(6,249)	-	63,814	(5,802)	58,012
Stock dividend paid	7,550	-	-	-	-	-	(7,550)	-	-	-	-	-
Acquisition of non-controlling interest (note 15)									-			
(Decrease)/increase in non-controlling interest	-	-	-	-	-	-	(6,960)	-		(6,960)	(53,840)	(60,800)
Issue of Tier 1 Sukuk	-	-	-	-	-	-	-	-	190,750	190,750	-	190,750
Purchase of treasury shares	-	(262)	-	-	-	-	-	-	-	(262)	-	(262)
Tier 1 Sukuk coupon paid	-	-	-	-	-	-	(3,167)	-	-	(3,167)	-	(3,167)
Balance at 30 September 2015	310,050	(9,525)	(1,750)	131,865	22,409	(27,858)	185,738	-	190,750	801,679	78,667	880,346
Balance at 1 January 2016	310,050	(9,750)	(1,750)	138,722	-	(57,858)	196,234	5,371	297,850	878,869	75,316	954,185
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	44,116	(44,116)	-	-	-	(7)	(7)
Profit for the period	-	-	-	-	-	-	40,563	-	-	40,563	(2,693)	37,870
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	26,114	-	-	-	26,114	1,693	27,807
Directors' remuneration paid	-	-	-	-	-	-	-	(5,371)	-	(5,371)	-	(5,371)
Total comprehensive income/(loss) for the period	-	-	-	-	-	26,114	40,563	(5,371)	-	61,306	(1,000)	60,306
Cash dividend paid	-	-	-	-	-	-	(30,945)	-	-	(30,945)	-	(30,945)
Purchase of treasury shares	-	(815)	-	-	-	-	-	-	-	(815)	-	(815)
Movement in Tier 1 Sukuk	-	-	-	-	-	-	-	-	(3,150)	(3,150)	-	(3,150)
Tier 1 Sukuk coupon paid	-	-	-	-	-	-	(16,853)	-	-	(16,853)	-	(16,853)
Balance at 30 September 2016	310,050	(10,565)	(1,750)	138,722	-	12,372	144,883	-	294,700	888,412	74,309	962,721

The notes on pages 9 to 29 form an integral part of these financial statements.

Finance House P.J.S.C.

Condensed interim consolidated statement of cash flows

	Notes	Nine months ended 30 September 2016 AED'000	2015 AED'000
Operating activities			
Profit for the period		**37,870**	64,657
Non-cash adjustments:			
Depreciation of property, fixtures and equipment		**5,500**	4,595
Amortisation of intangible asset		**587**	588
(Loss)/gain on sale of investments carried at amortised cost	6	**(713)**	(1,846)
Share of results of associate, net		**549**	(7,668)
Dividend income from investments	6	**(17,784)**	(21,001)
Gain on disposal of investments carried at fair value through profit or loss	6	**(3,265)**	(4,145)
Unrealised (gain)/loss on investments carried at fair value through profit or loss	6	**(5,947)**	(12,019)
Net allowance for impairment of loans and advances and recoveries	10.1	**58,524**	38,776
Net allowance for impairment of Islamic financing and investing assets and recoveries	10.2	**22,317**	3,536
Net movement in provision for employees' end of service benefits		**125**	1,313
		97,763	66,786
Working capital adjustments:			
Decrease in Islamic financing and investing assets		**(12,884)**	(59,120)
Decrease in loans and advances		**(49,170)**	(65,928)
Decrease/(increase) in interest receivable and other assets		**(13,116)**	21,483
Increase in term loan		-	150,000
Decrease in customers' deposits and margin accounts		**(311,338)**	(414,600)
Increase (Decrease) in interest payable and other liabilities		**16,343**	(40,187)
Net cash used in operating activities		**(272,402)**	(341,566)
Investing activities			
Purchase of investments carried at fair value through other comprehensive income		**(55,334)**	(87,280)
Proceeds from sale of investments carried at fair value through other comprehensive income		**60,905**	16,314
Purchase of investments carried at fair value through profit or loss		**(76,838)**	(78,885)
Proceeds from sale investments carried at fair value through profit or loss		**115,715**	73,147
Purchase of investments carried at amortised cost		**(44,096)**	(10,523)
Proceeds from sale of investments carried at amortisd cost		**65,058**	76,768
Purchase of property, fixtures and equipment		**(5,592)**	(7,058)
Acquisition of a subsidiary, net of cash acquired		-	(6,960)
Dividend income received		**17,784**	21,001
Net cash generated from/(used)in investing activities		**77,602**	(309)

Finance House P.J.S.C.

Condensed interim consolidated statement of cash flows (unaudited) (continued)

	Notes	Nine months ended 30 September 2016 AED'000	2015 AED'000
Financing activities			
Increase in short term borrowings		**(159,822)**	200,000
Decrease in term loan		**(37,500)**	-
Directors' remuneration paid		**(5,371)**	(6,249)
Cash dividends paid		**(30,945)**	-
Repayment of non-convertible Sukuk		-	(126,300)
Issuance of Tier 1 Sukuk		-	190,750
Movement in Tier 1 Sukuk held by Subsidiaries		**(3,150)**	-
Tier 1 Sukuk coupon paid		**(16,853)**	(3,167)
Purchase of treasury shares		**(815)**	(262)
Change in non-controlling interest		-	(53,840)
Net generated (used in) /from financing activities		**(254,456)**	200,932
Net (decrease) in cash and cash equivalents		**(449,256)**	(140,943)
Cash and cash equivalents, beginning of the period		**1,212,138**	902,382
Cash and cash equivalents at end of the period	8	**762,882**	761,439

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. (2) of 2015 (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.

2 Basis of preparation

Statement of compliance

The condensed interim consolidated financial statements for the nine months ended 30 September 2016 has been prepared in accordance with IFRS, International Accounting Standard (IAS) 34: Interim Financial Reporting as issued by International Accounting Standard Board (IASB). These financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2015.

Significant accounting policies

The accounting policies and methods of computation applied by the Group in the condensed interim consolidated financial statements are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2015.

This condensed interim consolidated financial statements is presented in United Arab Emirates Dirhams ("AED"), which is the "functional currency", rounded to the nearest thousand.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated October 12, 2008, accounting policies relating to investment securities and investment properties have been disclosed in the condensed interim financial information.

This condensed interim consolidated financial statements was approved on behalf of the Board of Directors on 27 October 2016

2 Basis of preparation (continued)

2.1 Basis of consolidation

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

Subsidiaries

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

Name of subsidiary	Country of incorporation	Ownership interest %		Principal activity
		30 September 2016	31 December 2015	
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.	**100**	100	Islamic financing services
Insurance House P.S.C.	U.A.E.	**44.83**	44.83	Insurance
Finance House Securities Co L.L.C.	U.A.E.	**70**	70	Brokerage
CAPM Investment P.J.S	U.A.E.	**100**	100	Investment and asset management

Transactions eliminated on consolidation

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

2 Basis of preparation (continued)

Significant accounting policies (continued)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs)

There are no other IFRSs that were effective for the first time for the financial year beginning January 1, 2016 that had a material impact on the Group's condensed interim consolidated financial statements.

2.2.2 Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2016 and not early adopted

The Group has not early adopted relevant new and revised IFRSs that have been issued but are not yet effective.

IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018 Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.

2 Basis of preparation (continued)

Significant accounting policies (continued)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2.2 Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2016 and not early adopted (continued)

The Group has early adopted IFRS 9 effective in 2010 with regards to the financial asset's classification and measurement and will also consider the impact of the remaining phases of IFRS 9 in due course.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the group's condensed consolidated interim financial statements in respect of the group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the group performs a detailed review. The Group performs a detailed review which is currently in the process of being undertaken by the Group.

The Group is assessing the impact of the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Group's financial year beginning on 1 January 2016.

There are no other applicable new standards and amendments to published standards or International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2016 that would be expected to have a material impact on the condensed interim consolidated financial statements of the Group.

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 condensed interim consolidated income statement. Unrealised profits and losses from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

2 Basis of preparation (continued)

Significant accounting policies (continued)

Financial assets

The Group has elected to apply IFRS 9 Financial Instruments as issued in July 2014, because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

Classification

The Group classifies its financial assets in the following measurement categories:

i. those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
ii. those to be measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model for which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

i. Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Profit income from these financial assets is included in the consolidated income statement within net interest income.

2 Basis of preparation (continued)

Significant accounting policies (continued)

Debt instruments (continued)

ii. Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit income and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

iii. Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Income from these financial assets is included in the consolidated income statement within net interest income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Realised gain and losses on disposal of equity investments classified as fair value through other comprehensive income are reclassified to retained earnings. dividends from such investments continue to be recognised in profit or loss as when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognised in net income from investment in the income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities

Financial liabilities, including due to banks, medium term loan, short term borrowings, non-convertible sukuk, customers' deposits and margin deposits and accounts are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2 Basis of preparation (continued)

Significant accounting policies (continued)

Receivables and other assets

Receivables and other assets that have fixed or determinable payments that are not quoted in an active market are classified as receivables. Receivables are measured at amortised cost using the effective interest method, less any impairment. Income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

The Group assesses at each reporting date whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

i. Significant financial difficulty of the issuer or obligor;
ii. A breach of contract, such as a default or delinquency in interest or principal payments;
iii. It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
iv. The disappearance of an active market for that financial asset because of financial difficulties; or
v. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - Adverse changes in the payment status of borrowers in the portfolio; and
    - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between Nine months and 12 months; in exceptional cases, longer periods are warranted.

The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2 Basis of preparation (continued)

Significant accounting policies (continued)

Impairment of financial assets (continued)

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If an asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

For the purposes of a collective evaluation of impairment loss, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's internal grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a financial asset is uncollectible, it is written off against the related allowance for impairment. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to financial assets are classified in "allowance for impairment of financial assets" charges whilst impairment charges relating to investment securities are classified in "Net gains/(losses) from investments carried at fair value through profit and loss". If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement.

Islamic financing and investing assets

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

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

ii. Ijara's cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value. The Ijara and purchase & leaseback are classified as a finance lease, when the Group undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets 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.

3 Key accounting estimates and judgements

The preparation of the condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates. In preparing the condensed interim consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended 31 December 2015.

4 Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2015.

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

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2016	2015	**2016**	2015
	AED'000	**AED'000**	**AED'000**	**AED'000**
Due from banks	**2,177**	1,366	**5,995**	5,120
Loans and advances	**64,109**	44,198	**177,111**	132,694
Income from Islamic financing and investing assets	**5,789**	6,030	**18,693**	15,885
Others	**2,591**	5,008	**7,390**	15,697
Interest income and income from Islamic financing and investing assets	**74,666**	56,602	**209,189**	169,396
Customers' deposits	**(12,953)**	(10,669)	**(34,905)**	(38,365)
Profit distributable to depositors	**(780)**	(797)	**(2,156)**	(2,414)
Due to banks	**(3,022)**	(1,895)	**(7,829)**	(3,223)
Interest expense and profit distributable to depositors	**(16,755)**	(13,361)	**(44,890)**	(44,002)
Net interest income and income from Islamic financing and investing assets	**57,911**	43,241	**164,299**	125,394

6 Net (loss)/income from investments

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2016	2015	**2016**	2015
	AED'000	**AED'000**	**AED'000**	**AED'000**
Gain on disposal of investments carried at fair value through profit or loss	**2,875**	1,960	**3,265**	4,145
Change in fair value of investments carried at fair value through profit or loss	**(5,162)**	(7,016)	**5,947**	12,019
Dividends from investments carried at fair value through profit or loss	**446**	1,121	**8,361**	8,655
Net income from investments carried at fair value through profit or loss	**(1,841)**	(3,935)	**17,573**	24,819
Dividend income from investments carried at fair value through other comprehensive income	**1,350**	434	**9,423**	12,346
Gain on disposal of investment carried at amortized cost	**-**	-	**713**	1,846
Net (loss)/income from investments	**(491)**	(3,501)	**27,709**	39,011

7 Basic and diluted earnings per share

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. As at 30 September 2016, the Company has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.

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

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2016	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000
Profit for the period attributable to equity holders of the parent (AED '000)	**8,397**	793	**40,563**	69,577
Less: Tier 1 Sukuk coupon paid	**(5,625)**	-	**(16,853)**	-
	2,772	793	**23,710**	69,577
Number of ordinary shares in issue ('000)	**310,050**	302,500	**310,050**	302,500
Less: Treasury shares ('000)	**(3,231)**	(2,690)	**(3,231)**	(2,690)
Less: Employees' share-based payment scheme ('000)	**(1,750)**	(1,750)	**(1,750)**	(1,750)
	305,069	298,060	**305,069**	298,060
Earnings per share (AED)	**0.01**	0.00	**0.08**	0.23

8 Cash and cash equivalents

	30 September 2016 AED'000	31 December 2015 AED'000
Cash balances		
Cash in hand	**10,270**	7,402
Due from banks		
Current and demand accounts	483,140	625,363
Fixed placements	100,000	330,152
Wakala deposits with banks and financial institutions	4,000	-
Call accounts	184,383	322,528
	771,523	1,278,043
Due to banks with original maturity of less than 3 months	(18,911)	(73,307)
Net cash and cash equivalents	**762,882**	1,212,138

9 Investments

	Fair value through OCI AED'000	Fair value through profit or loss AED'000	Amortised cost AED'000
30 September 2016			
Equity instruments:			
- Quoted	**595,116**	**223,530**	**-**
- Unquoted	**99,615**	**-**	**-**
Debt instruments:			
- Quoted - fixed rate	**-**	**2,549**	**-**
-Unquoted instruments	**-**	**-**	**146,944**
-Investment in managed fund	**9,988**	**-**	**-**
	704,719	**226,079**	**146,944**
Inside UAE	**434,700**	**226,079**	**-**
Outside UAE	**270,019**	**-**	**146,944**
	704719	**226,079**	**146,944**
31 December 2015			
Equity instruments:			
- Quoted	569,495	246,605	-
- Unquoted	102,772	-	-
Debt instruments:			
- Quoted - fixed rate	-	9,139	64,344
- Unquoted instruments	10,224	-	102,849
	682,491	255,744	167,193
Inside UAE	463,403	255,744	64,293
Outside UAE	219,088	-	102,900
	682,491	255,744	167,193

The fair value of investments carried at amortised cost at 30 September 2016 is AED 147,383 thousand (31 December 2015: 167,365 thousand).

Notes to condensed interim consolidated financial statements for the period ended 30 September 2016 (continued)

10 Loans and advances and Islamic financing and investing assets

10.1 Loans and advances

	30 September 2016 AED'000	31 December 2015 AED'000
Commercial loans	**1,885,262**	1,923,317
Retail finance	**404,208**	405,164
	2,289,470	2,328,481
Less: allowance for impairment		
Specific	**(159,483)**	(191,176)
Collective	**(36,807)**	(34,771)
Net loans and advances	**2,093,180**	2,102,534

The movement in the allowance for impairment of loans and advances during the period/year is as follows:

	30 September 2016 AED'000	31 December 2015 AED'000
At 1 January	**225,947**	198,897
Charge for the period/year	**84,543**	87,847
Release for the period	**(26,019)**	(7,700)
Amounts written off	**(88,181)**	(53,097)
At 30 September/31 December	**196,290**	225,947

10.2 Islamic financing and investing assets

Commodity Murabaha	**143,471**	144,421
Covered card and drawings	**57,232**	47,208
Purchase and lease back	**8,694**	14,715
Ijarah	**13,663**	6,691
Others	**2,859**	-
Gross islamic financing and investing assets	**225,919**	213,035
Less: Allowance for impairment		
Specific	**(30,720)**	(9,304)
Collective	**(3,443)**	(2,542)
Net islamic financing and investing assets	**191,756**	201,189

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

10.2 Islamic financing and investing assets (continued)

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

	30 September 2016 AED'000	31 December 2015 AED'000
At 1 January	**11,846**	6,083
Charge for the period/year	**22,317**	5,763
At 30 September/31 December	**34,163**	11,846

11 Customers' deposits and margin accounts

Customers' deposits		
Call and demand deposits	**160,723**	369,314
Time deposits	**1,954,575**	2,087,813
Wakala deposits	**100,925**	100,453
	2,216,223	2,557,580
Margin accounts	**718,114**	688,095
	2,934,337	3,245,675
Analysis of customers' deposits by sector is as follows:		
Government	**851,143**	797,582
Corporate	**2,083,194**	2,448,093
	2,934,337	3,245,675

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

12 Share capital

	30 September 2016	31 December 2015
Authorised, issued and fully paid		
310.1million shares (2015: 310.1million shares) of AED 1 each (2015: AED 1 each)	**310,050**	310,050

13 Treasury shares

Treasury shares represent the cost of 3,231 thousand shares of the Company held by the Company and a subsidiary as at 30 September 2016 (31 December 2015: 2,790 thousand shares).

14 Acquisition of non-controlling interest

On 4 January 2015, Finance House purchased the remaining 52.17% share capital of Islamic Finance House held by the minority shareholders, thereby increasing the entity's ownership interest from 47.83% to 100%. Finance House paid a total consideration amounting to AED 60.8 million. The carrying amount of Islamic Finance House PJSC's net assets on acquisition was AED 53.84 million. Accordingly, the excess of the consideration over the net assets acquired, amounting to AED 6.96 million was recorded within the equity as a decrease in retained earnings.

15 Employees' share-based payment scheme

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

During the period, nil shares were granted to employees and the value of outstanding shares not yet granted to employees as at 30 September 2016 were AED 1,750 thousand (31 December 2015: AED 1,750 thousand).

16 Commitments and contingent liabilities

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

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

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

16 Commitments and contingent liabilities (continued)

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

	30 September 2016 AED'000	31 December 2015 AED'000
Letters of credit	**135,967**	229,469
Letters of guarantee	**1,459,963**	1,406,685
Capital commitments	**7,357**	7,357
Irrevocable commitments to extend credit	**297,430**	161,474
	1,900,717	1,804,985

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

17 Related party disclosures

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

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

	30 September 2016 AED'000	31 December 2015 AED'000
Loans and advances to customers		
To key management staff	**858**	686
To members of board of directors	**12,017**	10,911
To others	**18,091**	42,799
Customers' deposits		
From others	**12,764**	9,721

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the period ended 30 September 2016, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2015: AED Nil).

17 Related party disclosures (continued)

The significant transactions included in the condensed interim consolidated financial information are as follows:

	Nine month period ended 30 September	
	2016	2015
	AED'000	AED'000
Interest and commission income		
From key management	**16**	10
From board of directors	**570**	343
Interest expense		
To others	**72**	38
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**17,191**	17,851

18 Seasonality of results

No income of a seasonal nature was recorded in the condensed interim consolidated income statement for the period ended 30 September 2016 and 2015.

19 Segment information

For management purposes, the Group is organised into six major business segments:

(i) Commercial and retail financing, which principally provides loans and other credit facilities for institutional and individual customers.
(ii) Investment, which involves the management of the Group's investment portfolio and its treasury activities.
(iii) Islamic financing and investing, which involves one of the Group's subsidiaries principally providing investment, consumer and commercial financing and other related services based on Islamic Sharia's rules and principles.
(iv) Insurance, which involves one of the Group's subsidiaries providing non-life insurance services.
(v) Construction, which involves the Group's subsidiaries performing real estate construction related activities.
(vi) Brokerage, which involves one of the Group's subsidiaries providing brokerage services.

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

Notes to the condensed interim consolidated financial statements for the period ended 30 September 2016 (continued)

19 Segment information (continued)

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

	Commercial and retail financing AED'000	Investment AED'000	Islamic financing and investing AED'000	Construction AED'000	Brokerage AED'000	Insurance AED'000	Unallocated AED'000	Total AED'000
30 September 2016								
Operating income	149,068	75,413	19,097	6,075	8,604	14,830	-	273,087
Inter-segment revenues	(54,634)	54,634	-	-	-	-	-	-
Segmental results and profit (loss) from operations	49,117	67,565	(15,699)	2,194	2,101	(5,974)	(61,434)	37,870
Segmental assets	2,019,850	1,811,219	269,065	6,095	175,911	221,659	-	4,503,799
Segmental liabilities	1,970,733	1,151,113	177,829	16,646	100,405	124,352	-	3,541,078
30 September 2015 (unaudited)								
Operating income	110,298	102,938	16,749	(628)	9,794	10,278	-	249,429
Inter-segment revenues	(49,381)	49,381	-	-	-	-	-	-
Segmental results and profit (loss) from operations	38,837	95,049	2,474	(1,847)	3,242	(10,594)	(62,504)	64,657
Segmental assets	1,883,570	2,107,517	317,225	19,234	216,549	241,040	-	4,785,135
Segmental liabilities	1,844,733	1,540,945	210,831	31,744	142,696	133,840	-	3,904,789
31 December 2015								
Segmental assets	2,003,004	2,304,277	301,076	10,865	179,820	242,809	-	5,041,851
Segmental liabilities	1,975,135	1,646,876	194,554	23,610	105,733	141,758	-	4,087,666

Notes to the condensed interim consolidated financial statements for the period ended 30 September 2016 (continued)

20 Fair value measurement

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 30 September 2016:

	Date of valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value					
Assets classified as held for sale	20 December 2015	-	-	126,015	126,015
At fair value through profit or loss					
Quoted equities	30 September 2016	223,530	-	-	223,530
Quoted debt instruments	30 September 2016	2,549	-	-	2,549
		226,079	-	-	226,079
At fair value through other comprehensive income					
Quoted equities	30 September 2016	595,116	-	-	595,116
Unquoted equities	30 September 2016	-	9,822	89,793	99,615
Investment in managed funds	30 September 2016	-	9,988	-	9,988
		595,116	19,810	89,793	704,719
Assets for which fair value is disclosed					
Investment carried at amortised cost	30 September 2016	-	147,383	-	147,383

20 Fair value measurement (continued)

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2015:

	Date of valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value					
Assets classified as held for sale	20 December 2015	-	-	126,015	126,015
At fair value through profit or loss					
Quoted equities	31 December 2015	246,605	-	-	246,605
Quoted debt instruments	31 December 2015	9,139	-	-	9,139
		255,744	-	-	255,744
At fair value through other comprehensive income					
Quoted equities	31 December 2015	569,495	-	-	569,495
Unquoted equities	31 December 2015	-	12,797	89,975	102,772
Investment in managed funds	31 December 2015	-	10,224	-	10,224
	31 December 2015	569,495	23,021	89,975	682,491
Assets for which fair value is disclosed					
Investment carried at amortised cost	31 December 2015	64,648	102,717	-	167,365

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

Investments carried at fair value through profit or loss

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

Investments carried at fair value through other comprehensive income

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

20 Fair value measurement (continued)

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

	Valuation technique	**Significant unobservable inputs valuation**	**Range (Weighted average)**	**Sensitivity of the input to fair value**
Unquoted equities	Price Earning Multiple Valuation Basis	PE Multiple	9– 11	Increase (decrease) in the PE Multiples by 1 would result in increase (decrease) in fair value by AED 5 million

Transfers between categories

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (2015: None).

21 Legal proceedings

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

22 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these condensed interim consolidated financial statements.