

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

**Consolidated financial statements  
for the year ended 31 December 2016**

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## *Independent auditor's report to the shareholders of Finance House P.J.S.C.*

### *Report on the audit of the consolidated financial statements*

#### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Finance House P.J.S.C. ("the Company") and its subsidiaries (together, "the Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015.

#### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code.

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Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy



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*Independent auditor's report to the shareholders of Finance House P.J.S.C. (continued)*

*Report on the audit of the consolidated financial statements (continued)*

*Our audit approach*

*Overview*

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**Key audit matters**

- Valuation of unquoted investments
  - Impairment of loans and advances to customers
- 

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



*Independent auditor's report to the shareholders of Finance House P.J.S.C. (continued)*

*Report on the audit of the consolidated financial statements (continued)*

*Our audit approach (continued)*

**Key audit matters**

Key audit matter	How our audit addressed the Key audit matter
<p><u><a href="#">Valuation of unquoted investments (refer to Note 5)</a></u></p> <p>Unquoted investments comprise a portfolio of equity investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The fair value of these financial instruments is determined through the application of valuation techniques which often involve the exercise of judgment by the management and the use of assumptions and estimates and therefore we considered valuation of unquoted investments as a key audit matter.</p> <p>Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use:</p> <ul style="list-style-type: none"><li>• significant observable valuation inputs (i.e. level 2 investments) and</li><li>• significant unobservable valuation inputs (i.e. level 3 instruments)</li></ul> <p>Estimation uncertainty is particularly high for level 3 instruments.</p> <p>In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 financial instruments and in particular when the fair value is established using valuation techniques due to the instruments complexity or due to the lack of availability of the market based data.</p> <p><i>Refer to the significant accounting policies note 2.5 to the financial statements which explains the investment valuation methodology used by the Group and note 37 which explains critical judgments and estimates.</i></p>	<p>We performed an assessment of the methodology and the appropriateness of the valuation models and inputs used to value available for sale investments against industry practice and valuation guidelines.</p> <p>We tested the valuation of a sample of level 3 available for sale investments. As part of these audit procedures, we assessed key inputs and assumptions used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data and investigated significant differences.</p> <p>In order to assess the frequency of the available prices for Level 2 available for sale investments, we tested a sample of investments valuations:</p> <ul style="list-style-type: none"><li>• to establish how many institutions contributed to pricing inputs and how wide the ranges of observable quotes were; and</li><li>• performed our own independent price checks using external quotes for liquid positions and, where available, for illiquid positions.</li></ul>

*Independent auditor's report to the shareholders of Finance House P.J.S.C. (continued)*

*Report on the audit of the consolidated financial statements (continued)*

**Key audit matters (continued)**

Key audit matter	How our audit addressed the Key audit matter
<p><u><b>Impairment of loans and advances and Islamic financing and investing assets (refer to note 6)</b></u></p> <p>At 31 December 2016, the gross loans and advances and Islamic financing and investing assets were AED 2,491 billion against which impairment provisions of AED 247 million were maintained. These include impairment against specific loans and collective impairment recorded on a portfolio basis through modelling techniques.</p> <p>We considered this as a key audit matter as the Group makes subjective judgements and assumptions to determine the impairment and the timing of recognition of such impairment provision.</p> <p>In particular the determination of impairment against loans and advance includes:</p> <ul style="list-style-type: none"> <li>• The identification of impairment events and methods and judgments used to calculate impairment against specific corporate loans and advances;</li> <li>• The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations;</li> </ul> <p><i>Refer to the significant accounting policies note 2.5 to the financial statements, note (b-ii and b-iii) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances and note 6 which contains the disclosure of impairment against loans and advances</i></p>	<p>We tested a sample of controls exercised by management with regard to the provision of impairment of loans and advances and Islamic financing and investing assets. These include the following</p> <ul style="list-style-type: none"> <li>• the identification of impairment events;</li> <li>• manual controls over the timely identified of impaired loans and advances;</li> <li>• the transfer of data between underlying source systems and the impairment models that the Group operates;</li> <li>• the review and approval process that management have in place for the outputs of the Group's impairment models.</li> </ul> <p>In addition to the above, we have performed the following substantive procedures:</p> <p>We assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. For this purpose, we tested a sample of performing loans with characteristics that might imply an impairment event had occurred to challenge whether all impairment events had been identified by management. We also randomly selected a sample of performing loans to further challenge whether impairment events, if any had been identified by management.</p> <p>Where impairment was individually calculated, we assessed the latest developments relating to the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, discount rates and valuation of collateral held.</p> <p>For the collective impairment models used by the Group, we tested the completeness and accuracy of the underlying loan information used in the impairment models by agreeing details to the Group's source systems. For the key assumptions in the model, we challenged management to provide objective evidence that they were appropriate.</p>



## *Independent auditor's report to the shareholders of Finance House P.J.S.C. (continued)*

### *Report on the audit of the consolidated financial statements (continued)*

#### *Other information*

Management and directors are responsible for the other information. The other information comprises the directors' report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Group's Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Group's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No (2) of 2015 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.





## *Independent auditor's report to the shareholders of Finance House P.J.S.C. (continued)*

### *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.





*Independent auditor's report to the shareholders of Finance House P.J.S.C. (continued)*

**Report on other legal and regulatory requirements**

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- (iii) the Group has maintained proper books of account;
- (iv) the consolidated financial information included in the report of the Directors is consistent with the books of account of the Group;
- (v) note 5 to the consolidated financial statements disclose the Group's investments during the year;
- (vi) note 32 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- (vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
- (viii) as disclosed in note 1 to the consolidated financial statements, the Group did not make any social contributions during the year ended 31 December 2016.

For and on behalf of PricewaterhouseCoopers Abu Dhabi, UAE

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

13 February 2017

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

### Consolidated statement of financial position

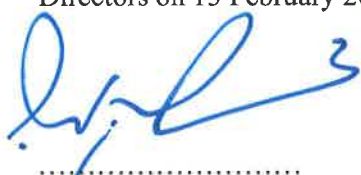
		As at 31 December	
	Notes	2016 AED'000	2015 AED'000
<b>ASSETS</b>			
Cash balances	4	7,388	7,402
Due from banks	4	777,395	1,278,043
Investments carried at fair value through profit or loss	5	204,766	255,744
Investments carried at fair value through other comprehensive income	5	712,425	682,491
Investments carried at amortised cost	5	128,569	167,193
Loans and advances	6	2,053,529	2,102,534
Islamic financing and investing assets	7	180,016	201,189
Investment in associate	8	50,477	51,687
Statutory deposit	9	6,000	6,000
Interest receivable and other assets	15	144,137	139,382
Property, fixtures and equipment	12	14,676	15,638
Intangibles	13	7,750	8,533
		4,287,128	4,915,836
Assets classified as held for sale	34	125,215	126,015
<b>Total assets</b>		<b>4,412,343</b>	<b>5,041,851</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	20	310,050	310,050
Treasury shares	24	(12,587)	(9,750)
Employees' share-based payment scheme	21	(1,750)	(1,750)
Statutory reserve	22	142,752	138,722
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		17,493	(57,858)
Retained earnings		133,227	196,234
Tier 1 Sukuk	10	288,700	297,850
Proposed directors' remuneration		2,076	5,371
		879,961	878,869
Non-controlling interests	3	73,791	75,316
<b>Total equity</b>		<b>953,752</b>	<b>954,185</b>

# Finance House P.J.S.C.

## Consolidated statement of financial position (continued)

		As at 31 December	
	Notes	2016 AED'000	2015 AED'000
<b>LIABILITIES</b>			
Customers' deposits and margin accounts	16	2,841,982	3,245,675
Due to banks and other financial institutions	4	47,175	73,307
Short term borrowings	17	192,500	340,000
Medium term loan	17	87,500	137,500
Interest payable and other liabilities	18	247,476	250,517
Provision for employees' end of service benefits		12,056	10,765
		<u>3,428,689</u>	<u>4,057,764</u>
Liabilities directly associated with assets classified as held for sale	34	<u>29,902</u>	<u>29,902</u>
<b>Total liabilities</b>		<u>3,458,591</u>	<u>4,087,666</u>
<b>Total equity and liabilities</b>		<u>4,412,343</u>	<u>5,041,851</u>
<b>Commitments and contingent liabilities</b>	25	<u>1,969,881</u>	<u>1,804,985</u>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 13 February 2017 and were signed on its behalf by:



Mr. Mohammed Alqubaisi  
CHAIRMAN



Mr. Hamid Taylor  
GENERAL MANAGER



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

### Consolidated statement of profit and loss

	Notes	Year ended 31 December	
		2016 AED'000	2015 AED'000
Interest income and income from Islamic financing and investing assets	26	282,164	232,890
Interest expense and profit distributable to depositors	26	(62,397)	(60,005)
<b>Net interest income and income from Islamic financing and investing assets</b>		<b>219,767</b>	<b>172,885</b>
Net income from perpetual instruments	5	25,605	25,557
<b>Net interest income, income from Islamic financing and investing assets and net income from perpetual instruments</b>		<b>245,372</b>	<b>198,442</b>
Net fee and commission income	27	48,020	44,588
Net contract loss	28	-	(1,674)
Net insurance income	29	7,663	736
Profit distributable to sukuk holders		-	(5,129)
Net income from investments	30	40,207	17,863
Net income from investment properties	14	-	56,377
Share of (loss)/profit of associate	8	(1,210)	7,180
Other operating income, net		14,061	5,703
<b>Total operating income</b>		<b>354,113</b>	<b>324,086</b>
Salaries and employees related expenses		(122,395)	(113,886)
Depreciation of property, fixtures and equipment	12	(7,309)	(6,450)
Amortisation of intangibles	13	(783)	(784)
General and administrative expenses		(70,642)	(65,548)
Profit before net impairment charges on loans and advances and Islamic financing and investing assets		152,984	137,418
Net impairment charge on loans and advances	6	(95,195)	(80,147)
Net impairment charge on Islamic financing and investing assets	7	(26,575)	(5,763)
		31,214	51,508
Income from assets classified as held for sale	34	6,885	10,189
<b>Profit for the year</b>		<b>38,099</b>	<b>61,697</b>
Attributable to:			
Equity holders of the parent		40,296	68,571
Non-controlling interests	3	(2,197)	(6,874)
		<b>38,099</b>	<b>61,697</b>
<b>Basic and diluted earnings per share attributable to ordinary shares (AED)</b>	31	<b>0.05</b>	<b>0.18</b>

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

### Consolidated statement of comprehensive income

Notes	Year ended 31 December	
	2016 AED'000	2015 AED'000
Profit for the year	38,099	61,697
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to consolidated income statement:</b>		
Net profit/(loss) on financial assets measured at fair value through other comprehensive income	32,264	(12,079)
Directors' remuneration paid	(5,371)	(6,249)
<b>Other comprehensive profit/(loss) for the year</b>	<b>26,893</b>	<b>(18,328)</b>
<b>Total comprehensive income for the year</b>	<b>64,992</b>	<b>43,369</b>
Attributable to:		
Equity holders of the parent	66,502	52,499
Non-controlling interests	3 (1,510)	(9,130)
	<b>64,992</b>	<b>43,369</b>

# Finance House P.J.S.C.

## 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 interests AED'000	Total AED'000
<b>2015</b>												
<b>Balance at 1 January 2015</b>	302,500	(9,263)	(1,750)	131,865	22,409	(52,235)	144,317	6,249	-	544,092	138,286	682,378
Profit for the year	-	-	-	-	-	-	68,571	-	-	68,571	(6,874)	61,697
Decrease in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	(9,823)	-	-	-	(9,823)	(2,279)	(12,102)
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	4,200	(4,200)	-	-	-	23	23
Directors' remuneration paid	-	-	-	-	-	-	-	(6,249)	-	(6,249)	-	(6,249)
Revaluation of capital work in progress on transfer to investment properties	-	-	-	-	(22,409)	-	22,409	-	-	-	-	-
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	(22,409)	(5,623)	86,780	(6,249)	-	52,499	(9,130)	43,369
Transactions with owners in their capacity as owners:												
Proposed directors' remuneration	-	-	-	-	-	-	(5,371)	5,371	-	-	-	-
Stock dividend (note 23)	7,550	-	-	-	-	-	(7,550)	-	-	-	-	-
Transfer to statutory reserve	-	-	-	6,857	-	-	(6,857)	-	-	-	-	-
Purchase of treasury shares	-	(487)	-	-	-	-	-	-	-	(487)	-	(487)
Acquisition of non-controlling interest (note 11)	-	-	-	-	-	-	(6,960)	-	-	(6,960)	(53,840)	(60,800)
Issue of Tier 1 Sukuk	-	-	-	-	-	-	-	-	297,850	297,850	-	297,850
Tier 1 Sukuk coupon paid	-	-	-	-	-	-	(8,125)	-	-	(8,125)	-	(8,125)
<b>Balance at 31 December 2015</b>	310,050	(9,750)	(1,750)	138,722	-	(57,858)	196,234	5,371	297,850	878,869	75,316	954,185

The notes on pages 16 to 80 form an integral part of these consolidated financial statements.



# Finance House P.J.S.C.

## Consolidated statement of changes in equity (continued)

	Share capital AED'000	Treasury shares AED'000	Employees' share-based payment scheme AED'000	Statutory 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 interests AED'000	Total AED'000
<b>2016</b>											
<b>Balance at 1 January 2016</b>	310,050	(9,750)	(1,750)	138,722	(57,858)	196,234	5,371	297,850	878,869	75,316	954,185
Profit for the year	-	-	-	-	-	40,296	-	-	40,296	(2,197)	38,099
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	31,577	-	-	-	31,577	196	31,773
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	43,774	(43,774)	-	-	-	491	491
Directors' remuneration paid	-	-	-	-	-	-	(5,371)	-	(5,371)	-	(5,371)
<b>Total comprehensive income for the year</b>	-	-	-	-	75,351	(3,478)	(5,371)	-	66,502	(1,510)	64,992
Transactions with owners in their capacity as owners:											
Proposed directors' remuneration	-	-	-	-	-	(2,076)	2,076	-	-	-	-
Cash dividend paid	-	-	-	-	-	(30,945)	-	-	(30,945)	-	(30,945)
Transfer to statutory reserve	-	-	-	4,030	-	(4,030)	-	-	-	-	-
Purchase of treasury shares	-	(2,837)	-	-	-	-	-	-	(2,837)	-	(2,837)
Decrease in non-controlling interest	-	-	-	-	-	-	-	-	-	(15)	(15)
Movement in Tier 1 Sukuk	-	-	-	-	-	-	-	(9,150)	(9,150)	-	(9,150)
Tier 1 Sukuk coupon paid	-	-	-	-	-	(22,478)	-	-	(22,478)	-	(22,478)
<b>Balance at 31 December 2016</b>	310,050	(12,587)	(1,750)	142,752	17,493	133,227	2,076	288,700	879,961	73,791	953,752

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The notes on pages 16 to 80 form an integral part of these consolidated financial statements.

# Finance House P.J.S.C.

## Consolidated statement of cash flows

	Note	Year ended 31 December	
		2016 AED'000	2015 AED'000
<b>Cash flows from operating activities</b>			
Profit for the year		38,099	61,697
<b>Adjustments for:</b>			
Depreciation of property, fixtures and equipment	12	7,309	6,450
Amortisation of intangibles	13	783	784
Loss (gain) on fair valuation of assets classified as held for sale		800	(2,600)
Profit on disposal of investments carried at amortised cost	30	(713)	(1,846)
Share of results of an associate		1,210	(7,180)
Gains on disposal of investment properties		-	(29,527)
Dividend income from investments		(17,967)	(20,505)
Gain on disposal of investments carried at fair value through profit or loss	30	(5,441)	(3,411)
Unrealised (gain) loss on investments carried at fair value through profit or loss	30	(16,086)	7,899
Provision for impairment of loans and advances	6	95,195	80,147
Provision for impairment of Islamic financing and investing assets	7	26,575	5,763
Net movement in provision for employees' end of service benefits		1,291	1,939
<b>Operating cash flows before changes in working capital</b>		<b>131,055</b>	<b>99,610</b>
<b>Changes in working capital</b>			
Decrease in Islamic financing and investing assets		(5,402)	(68,141)
Decrease in loans and advances		(46,190)	(242,803)
Decrease in interest receivable and other assets		(4,755)	54,899
Decrease in term loans		-	137,500
Decrease in customers' deposits and margin accounts		(403,693)	(189,332)
Decrease in interest payable and other liabilities		(3,041)	(58,521)
<b>Net cash used in operating activities</b>		<b>(332,026)</b>	<b>(266,788)</b>
<b>Cash flow from investing activities</b>			
Purchase of investments carried at fair value through other comprehensive income		(71,620)	(81,938)
Proceeds from sale of investments carried at fair value through other comprehensive income		73,950	16,865
Purchase of investments carried at fair value through profit or loss		(120,741)	(90,235)
Proceeds from sale of investments carried at fair value through profit or loss		193,246	78,380
Purchase of investments carried at amortised cost		(44,097)	(10,523)
Proceeds from sale of investments carried at amortised cost		83,434	76,768
Proceeds from sale of investment property		-	329,500
Addition to property, fixtures and equipment		(6,441)	(10,330)
Proceeds from disposal of property, fixtures and equipment		94	1,663
Acquisition of a subsidiary, net of cash acquired		-	(6,960)
Dividend income received		17,967	20,505
<b>Net cash generated from investing activities</b>		<b>125,792</b>	<b>323,695</b>
<b>Cash flow from financing activities</b>			
(Decrease) increase in short term borrowings		(147,500)	150,000
Decrease in term loan		(50,000)	-
Directors' remuneration paid		(5,371)	(6,249)
Non-convertible Sukuk		-	(126,300)
Movement in Tier 1 Sukuk		(9,150)	297,850
Tier 1 Sukuk coupon paid		(22,478)	(8,125)
Purchase of treasury shares		(2,837)	(487)
Change in non-controlling interest		(15)	(53,840)
Cash dividend paid		(30,945)	-
<b>Net cash (used in)/generated from financing activities</b>		<b>(268,296)</b>	<b>252,849</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(474,530)</b>	<b>309,756</b>
Cash and cash equivalents, beginning of the year		1,212,138	902,382
Cash and cash equivalents, end of the year	4	737,608	1,212,138

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016**

#### **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 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.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Group has come into effect on 1 July 2015. The Group is currently assessing and evaluating the relevant provisions of the Companies Law. It has twenty four months from the effective date of the Companies Law to fully comply with the Companies Law under the transitional provisions set out therein.

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 13 February 2017.

The Group has not made any social contributions during the financial year ended 31 December 2016.

#### **2.1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards, and interpretations issued by the IFRS Interpretations Committee (IFRSIC) applicable to companies reporting under IFRS and the applicable requirements of the laws in the U.A.E. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

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.

##### **Historical cost convention**

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets – measured at fair value; and
- assets held for sale – measured at lower of carrying value or fair value less cost of disposal.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

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

### 2.2.1 New and revised IFRSs effective for accounting periods beginning 1 January 2016

New standards and significant amendments to standards applicable to the Group	Effective date
<b>Annual improvements 2012</b> These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to: <ul style="list-style-type: none"><li>• IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.</li><li>• IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.</li><li>• IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.</li></ul>	1 July 2015 although endorsed for annual period on or after 1 February 2016
<b>Annual improvements 2013</b> <ul style="list-style-type: none"><li>• IFRS 13 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13 - The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.</li></ul>	1 July 2015 although endorsed for annual period on or after 1 February 2016
<b>IAS 19, Defined benefit plans: Employee contributions</b> The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives.	1 July 2015 although endorsed for annual period on or after 1 February 2016

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

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

##### 2.2.1 New and revised IFRSs effective for accounting periods beginning 1 January 2016 (continued)

<p><b>Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation.</b></p> <p>This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.</p> <p>The presumption may only be rebutted in certain limited circumstances.</p> <ul style="list-style-type: none"><li>• IAS 1 Amendments to IAS 1, 'Presentation of financial statements' Disclosure initiative. The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.</li></ul>	1 January 2016
<p><b>Amendments to IFRS 10 and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture</b></p> <p>These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.</p>	1 January 2016

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

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

##### 2.2.1 New and revised IFRSs effective for accounting periods beginning 1 January 2016 (continued)

Annual improvements 2015	1 January 2016
<p>These annual improvements amend standards from the 2012 - 2015 reporting cycle. It includes changes to:</p> <ul style="list-style-type: none"><li>• IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets.</li><li>• IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.</li><li>• IAS 34, 'Interim financial reporting', regarding information disclosed elsewhere in the interim financial report. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.</li></ul>	

There is no impact of these provisions on the consolidated financial statements of the Group.

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



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

### **Notes to the consolidated financial statements for the year ended 31 December 2016**

#### **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**

Except for IFRS 9, the Group has not early adopted relevant new and revised IFRSs that have been issued but are not yet effective.

<b>IFRS 15, 'Revenue from contracts with customers'</b> 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 Early adoption permitted
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## Finance House P.J.S.C.

### Notes to the consolidated financial statements for the year ended 31 December 2016

#### 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)

<b>IFRS 9, 'Financial instruments'</b> 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 2016 continue to have the option to apply the Standard in phases.
<b>IFRS 16, 'Lease'</b>	

The Group has early adopted IFRS 9 effective in 2008 with regards to the financial assets' classification and measurement and will also consider the impact of the remaining phases of IFRS 9 prior to its effective implementation date on 1 January 2018.

The application of the finalised version of IFRS 9 may have a significant impact on amounts reported and disclosures made in the Group's consolidated 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 has performed a detailed review.

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.

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016 (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)**

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 consolidated financial statements of the Group.

#### **2.3 Consolidation and equity accounting**

##### *(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit and loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

##### *(b) Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

##### *(c) Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016**

**2.3 Consolidation and equity accounting (continued)**

*(c) Equity method (continued)*

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.4.f.

*(d) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**2.4 Significant accounting policies**

*(a) 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.

*(b) 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.

*(c) Financial assets*

The Group has elected to apply IFRS 9 Financial Instruments as issued in July 2015, because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transitional provisions in IFRS 9.

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)**

#### **2.4 Significant accounting policies (continued)**

##### *(c) Financial assets (continued)*

##### **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.
- 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.

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016**

#### **2.4 Significant accounting policies (continued)**

##### *(c) Financial assets (continued)*

##### **Debt instruments (continued)**

- 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. Dividends from such investments continue to be recognised in profit or loss as and 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, 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.

##### **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.



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

### Notes to the consolidated financial statements for the year ended 31 December 2016

#### 2.4 Significant accounting policies (continued)

##### (c) Financial assets (continued)

##### 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 three 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.

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.

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016**

#### **2.4 Significant accounting policies (continued)**

##### *(c) Financial assets (continued)*

##### **Impairment of financial assets (continued)**

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 and 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016

#### 2.4 Significant accounting policies (continued)

(d) *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.

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:

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

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.

(e) *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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 2.4 Significant accounting policies (continued)

(e) *Intangible assets* (continued)

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.

(f) *Impairment of non-financial assets*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) *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 statement of profit and loss 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 statement of profit and loss 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 statement of profit and loss.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016**

**2.4 Significant accounting policies (continued)**

*(h) 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.

*(i) 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.

*(j) 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.

*(k) 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016

#### 2.4 Significant accounting policies (continued)

##### *(l) Business combinations*

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

##### *(m) 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. Provisions are not recognized for future operating losses.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 2.4 Significant accounting policies (continued)

(n) *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.

(o) *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.

(p) *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 profit and loss.

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.

(q) *Financial guarantee contracts*

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure finances, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of issue usually equals the premium received. Subsequently, the guarantee is measured at the higher of:

- i. the initial amount recognised less cumulative amortization of the initial amount premium recognised and,
- ii. the best estimate of the amount required to settle the guarantee.

These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgment. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the income statement.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016

#### 2.4 Significant accounting policies (continued)

*(r) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

*(s) Non-current assets held for sale and discontinued operations*

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as investment property that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

*(t) Earnings per share*

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, deducting any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 24).

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.



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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 2.4 Significant accounting policies (continued)

##### *(u) Fair values*

The Group measures financial instruments such as investments carried at fair value through profit or loss and investments 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 consolidated 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

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

### Notes to the consolidated financial statements for the year ended 31 December 2016

#### 2.4 Significant accounting policies (continued)

##### (u) *Fair values* (continued)

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.

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 37.

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.

##### (v) *Recognition of income and expenses*

###### (i) 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.

###### (ii) 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.

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016**

#### **2.4 Significant accounting policies (continued)**

*(v) Recognition of income and expenses (continued)*

*(ii) Fees and commission (continued)*

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.

*(iii) Murabaha*

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

*(iv) Ijara*

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

*(v) 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.

*(vi) Dividend income*

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

*(vii) 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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016** (continued)

**2.4 Significant accounting policies** (continued)

(w) *Insurance income*

(i) *Insurance contracts*

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.

(ii) *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.

(iii) *Commissions earned*

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

(iv) *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.

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

**2.5 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.

(a) *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:

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

### Notes to the consolidated financial statements for the year ended 31 December 2016

#### 2.5 Significant accounting judgements and estimates (continued)

(a) *Judgments (continued)*

(i) Consolidation of entities in which the Group holds less than majority of voting rights  
The Group considers that it controls Insurance House P.S.C. even though it owns less than 50% of the voting rights in the Company as the Group is the largest shareholder of Insurance House P.S.C. with 44.83% equity interest, in addition to this, the Group has substantial and material board presence, and control over key financial and operational decisions affecting the Company.

(ii) 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.

(b) *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.

(i) Fair value of investment properties and assets held for sale

The Group carries its investment properties and assets held for sale at fair value, with changes in fair value being recognised in the consolidated statement of profit and loss. The Group engaged an independent valuation specialist to assess fair value for its investment properties, other assets held for sale were valued internally, both using a valuation methodology based on the 'income method'. The key assumptions used to determine the fair value of the assets and sensitivity analyses are disclosed in notes 14 and 37.

(ii) 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 statement of profit and loss. 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 2.5 Significant accounting judgements and estimates (continued)

(b) *Estimates and assumptions* (continued)

(iii) 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.

(iv) Allowance for impairment of receivables

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

(v) 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.

(vi) Fair value of unquoted investments

As described in note 37, 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 37.

(vii) 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.

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016**

#### **2.6 Definitions**

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

*(a) 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.

*(b) 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.

*(c) 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).

*(d) Sukuk*

These comprise Sharia'a compliant financial instruments representing debt under Murabaha contracts.

*(e) 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 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
		2016	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



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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 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:

	Insurance House P.S.C.		Finance House Securities Co. LLC		Total	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Non-controlling interests %	55.17	55.17	30	30		
Accumulated balance of material non-controlling interests	51,573	54,100	22,218	21,216	73,791	75,316
Subsidiaries' statement of financial position						
Assets	217,238	242,809	192,680	179,820	409,918	422,629
Liabilities	(121,482)	(141,758)	(116,002)	(105,733)	(237,484)	(247,491)
Net assets	95,756	101,051	76,678	74,087	172,434	175,138
Subsidiaries' revenues and profits (losses)						
Revenues, net	25,933	14,050	11,952	12,318	37,885	26,368
Net (loss) profit for the year	(5,715)	(14,297)	3,273	3,597	(2,442)	(10,700)
Net (loss) profit for the year allocated to non-controlling interest	(3,179)	(7,953)	982	1,079	(2,197)	(6,874)
Total comprehensive (loss) income for the year	(5,280)	(18,152)	3,274	2,209	(2,006)	(15,943)
Total comprehensive (loss) income allocated to non- controlling interest	(3,039)	(10,041)	1,038	888	(2,001)	(9,153)
Subsidiaries' summarized cash flow information						
Operating	13,805	3,912	(56,278)	(11,905)	(42,473)	(7,993)
Investing	49,456	20,049	155	(1,423)	49,611	18,626
Financing	(41,578)	(20,045)	24,806	13,274	(16,772)	(6,771)
Net increase (decrease) in cash and cash equivalents	21,683	3,916	(31,317)	(54)	(9,634)	3,862

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 4 Cash and cash equivalents

	31 December 2016 AED'000	31 December 2015 AED'000
<b>Cash balances</b>		
Cash in hand	<u>7,388</u>	<u>7,402</u>
<b>Due from banks with original maturities of less than three months</b>		
Current and demand accounts	151,092	625,363
Fixed placements	260,309	330,152
Wakala deposits with banks	6,000	-
Call accounts	<u>359,994</u>	<u>322,528</u>
	<u>777,395</u>	<u>1,278,043</u>
<b>Due to banks with original maturity of less than three months</b>		
	<u>(47,175)</u>	<u>(73,307)</u>
Net cash and cash equivalents	<u>737,608</u>	<u>1,212,138</u>

Current accounts include an account with the Central Bank of the UAE in the balance of AED 19,654 thousand (2015: AED 26,015 thousand).

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 5 Investments

	At fair value through OCI AED'000	At fair value through profit or loss AED'000	At amortised cost AED'000	Total AED'000
<b>31 December 2016</b>				
Equity instruments:				
- Quoted	603,196	202,243	-	805,439
- Unquoted	100,151	-	-	100,151
Debt instruments:				
- Quoted - fixed rate	-	2,523	-	2,523
- Unquoted investments	-	-	128,569	128,569
Investment in managed funds	9,078	-	-	9,078
	<u>712,425</u>	<u>204,766</u>	<u>128,569</u>	<u>1,045,760</u>
Within UAE	443,926	204,766	-	648,692
Outside UAE	268,499	-	128,569	397,068
	<u>712,425</u>	<u>204,766</u>	<u>128,569</u>	<u>1,045,760</u>
<b>31 December 2015</b>				
Equity instruments:				
- Quoted	569,495	246,605	-	816,100
- Unquoted	102,772	-	-	102,772
Debt instruments:				
- Quoted - fixed rate	-	9,139	64,344	73,483
- Unquoted investments	-	-	102,849	102,849
Investment in managed funds	10,224	-	-	10,224
	<u>682,491</u>	<u>255,744</u>	<u>167,193</u>	<u>1,105,428</u>
Within UAE	463,403	255,744	64,293	783,440
Outside UAE	219,088	-	102,900	321,988
	<u>682,491</u>	<u>255,744</u>	<u>167,193</u>	<u>1,105,428</u>

The fair value of investments carried at amortised cost at 31 December 2016 is AED 128,631 thousand (2015: AED 167,365 thousand).

Net income from perpetual instruments includes investment income from Tier 1 Sukuk Instruments.

During the year the Group has disposed of a number of investments that are carried at amortised cost for strategic reasons in an amount of AED 29,245 thousand (2015: AED 37,410 thousand).

Furthermore, during 2016, the Group made a number of purchases in shares and bonds for strategic and trading purposes in an amount of AED 236,458 thousand (2015: AED 180,696 thousand).

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 6 Loans and advances

	2016 AED'000	2015 AED'000
Commercial loans	1,857,890	1,923,317
Retail finance	415,440	405,164
Gross loans and advances	<u>2,273,330</u>	<u>2,328,481</u>
Less:		
Allowance for impairment, collective	(36,067)	(34,771)
Allowance for impairment, individual	<u>(183,734)</u>	<u>(191,176)</u>
Net loans and advances	<u>2,053,529</u>	<u>2,102,534</u>

The movement in the allowance for impairment during the year is shown below:

	Individual impairment AED' 000	Collective impairment AED'000	Total AED'000
<b>2016</b>			
At 1 January	191,176	34,771	225,947
Charge for the year	93,899	1,296	95,195
Amounts written off	<u>(101,341)</u>	<u>-</u>	<u>(101,341)</u>
Balance at 31 December	<u>183,734</u>	<u>36,067</u>	<u>219,801</u>
<b>2015</b>			
At 1 January	177,234	21,663	198,897
Charge for the year	67,039	13,108	80,147
Amounts written off	<u>(53,097)</u>	<u>-</u>	<u>(53,097)</u>
Balance at 31 December	<u>191,176</u>	<u>34,771</u>	<u>225,947</u>

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 7 Islamic financing and investing assets

	2016 AED'000	2015 AED'000
Commodity Murabaha	134,762	144,421
Covered card and drawings	56,959	47,208
Purchase and lease back	8,062	14,715
Ijarah	15,458	6,691
Others	3,196	-
Gross islamic financing and investing assets	<u>218,437</u>	<u>213,035</u>
Less:		
Allowance for impairment, collective	(3,523)	(2,542)
Allowance for impairment, specific	(34,898)	(9,304)
Net Islamic financing and investing assets	<u>180,016</u>	<u>201,189</u>

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

	2016 AED'000	2015 AED'000
At 1 January	11,846	6,083
Charge for the year, net	26,575	5,763
At 31 December	<u>38,421</u>	<u>11,846</u>

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

	2016 AED'000	2015 AED'000
<b>Gross Ijara and purchase and lease-back</b>		
Less than one year	7,350	8,315
Between one and three years	11,712	10,059
Between three and five years	5,877	5,771
More than five years	3,382	1,138
	<u>28,321</u>	<u>25,283</u>
Less: deferred income	(4,801)	(3,877)
Net Ijara and purchase and lease-back	<u>23,520</u>	<u>21,406</u>

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 7 Islamic financing and investing assets (continued)

Net present value of minimum Ijara and purchase and lease-back payments

	2016 AED'000	2015 AED'000
Less than one year	5,774	6,825
Between one and three years	9,625	8,338
Between three and five years	4,994	5,195
More than five years	3,127	1,048
	<b>23,520</b>	<b>21,406</b>

#### 8 Investment in an associate

The Group has the following investment in an associate

	Country of incorporation	Percentage of holding		Principal activity
		2016	2015	
Mainland Management L.L.C.	United Arab Emirates	33.33%	33.33%	Hospitality management services

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

	2016 AED'000	2015 AED'000
At 1 January	51,687	44,507
Share of results for the year	(1,210)	7,180
At 31 December	<b>50,477</b>	<b>51,687</b>

Summarised financial information of the associate is set out below.

	2016 AED'000	2015 AED'000
Associate's statement of financial position		
Assets	212,256	226,389
Liabilities	(60,823)	(71,327)
<b>Net assets</b>	<b>151,433</b>	<b>155,062</b>
Group's share of net assets	50,477	51,687
<b>Carrying amount of investment in associates</b>	<b>50,477</b>	<b>51,687</b>
Associate's revenue and loss:		
Revenue	34,406	74,496
(Loss) profit for the year	(3,630)	21,540
<b>Group's share of results for the year</b>	<b>(1,210)</b>	<b>7,180</b>

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)**

#### **9 Statutory deposit**

In accordance with the requirement of Federal Law No.6 of 2007 and Insurance Authority board resolution No.15 of 2014, concerning Insurance Companies and Agents, the Group maintains a bank deposit amounting to AED 6,000 thousand (2015: AED 6,000 thousand) and it cannot be utilised without the consent of the UAE Insurance Authority.

#### **10 Tier 1 Sukuk**

In July 2015, the Company raised financing by way of Shari'a compliant Tier 1 Capital Certificates amounting to AED 300 million. Issuance of these Capital Certificates was approved by the Company's Extra Ordinary General Meeting (EGM) in April 2015. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Certificates bear profit at a fixed rate payable semi-annually in arrears. The Capital Certificates are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Company subject to certain conditions. Sukuk amounting to AED 11.3 million were held by a subsidiary of the Group and, accordingly, eliminated in the consolidated statement of financial position. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a perpetual rate of 7.5% p.a.

#### **11 Acquisition of non-controlling interest**

On 4 January 2015, the Company purchased the remaining 52.17% share capital of Islamic Finance House held by non-controlling interests, thereby increasing the entity's ownership interest from 47.83% to 100%. The Company 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 53.8 million. Accordingly, the excess of the consideration over the net assets acquired, amounting to AED 7 million was recorded within the equity as a decrease in retained earnings.

# Finance House P.J.S.C.

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 12 Property, fixtures and equipment

	Furniture fixtures and equipment AED'000	Motor vehicles AED'000	Computer hardware and software AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost or valuation:</b>					
At 1 January 2015	39,791	7,481	25,327	210	72,809
Additions during the year	6,571	630	3,129	-	10,330
Disposals	(13,772)	(4,806)	(1,294)	(119)	(19,991)
31 December 2015	32,590	3,305	27,162	91	63,148
Additions during the year	1,318	295	4,828	-	6,441
Disposals	(721)	-	-	(91)	(812)
At 31 December 2016	33,187	3,600	31,990	-	68,777
<b>Accumulated depreciation</b>					
At 1 January 2015	32,925	5,142	21,321	-	59,388
Charge for the year	3,544	572	2,334	-	6,450
Relating to disposals	(12,354)	(4,745)	(1,229)	-	(18,328)
At 31 December 2015	24,115	969	22,426	-	47,510
Charge for the year	3,629	500	3,180	-	7,309
Release on disposal	(718)	-	-	-	(718)
At 31 December 2016	27,026	1,469	25,606	-	54,101
<b>Net book value:</b>					
At 31 December 2016	6,161	2,131	6,384	-	14,676
At 31 December 2015	8,475	2,336	4,736	91	15,638



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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 13 Intangibles

	License AED'000	Goodwill AED'000	Total AED'000
<b>2016</b>			
<b>Carrying value:</b>			
At 1 January	1,828	6,705	8,533
Amortised during the year	(783)	-	(783)
At 31 December	<u>1,045</u>	<u>6,705</u>	<u>7,750</u>
<b>2015</b>			
<b>Carrying value:</b>			
At 1 January	2,612	11,678	14,290
Amortised during the year	(784)	-	(784)
Written off during the year	-	(4,973)	(4,973)
At 31 December	<u>1,828</u>	<u>6,705</u>	<u>8,533</u>

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

#### Impairment testing of goodwill

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

Goodwill 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 14 Investment properties

	2016 AED'000	2015 AED'000
At 1 January	-	295,000
Disposed during the year	-	(295,000)
At 31 December	-	-

During 2016, net income from investment property of AED nil (2015: AED 56.37 million) included a profit from the sale of the investment property for an amount of AED nil (2015: AED 29.53 million).

#### 15 Interest receivable and other assets

	2016 AED'000	2015 AED'000
Insurance receivables	44,119	51,916
Interest receivable	25,758	26,224
Prepayments	20,921	21,372
Other assets	18,695	2,750
Re-insurance contract assets	16,728	16,535
Accounts receivable, net of provision for impairment (ii)	14,766	15,228
Amounts due from customers under construction contracts (note 33)	2,028	4,154
Profit receivable (i)	820	901
Advance for investments	302	302
	<b>144,137</b>	<b>139,382</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 2016, accounts receivable at nominal value of AED 6,196 thousand (2015: AED 6,196 thousand) were impaired and fully provided for.

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

	Total AED	Neither past due nor impaired AED	Past due but not impaired			
			< 30 days AED	30 – 60 days AED	61 – 90 days AED	>90 days AED
2016	14,766	10,758	222	1	-	3,785
2015	15,228	10,280	1,052	48	34	3,814

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 16 Customers' deposits and margin accounts

	2016 AED'000	2015 AED'000
Call and demand deposits	225,851	369,314
Time deposits	1,780,864	2,087,813
Wakala deposits	112,913	100,453
	<u>2,119,628</u>	<u>2,557,580</u>
Margin accounts	722,354	688,095
	<u>2,841,982</u>	<u>3,245,675</u>
Analysis of customers' deposits by sector is as follows:		
Government	528,485	797,582
Corporate	2,313,497	2,448,093
	<u>2,841,982</u>	<u>3,245,675</u>

Customers' deposits are held at fixed interest rates.

Margin accounts represent cash margins collected from corporate customers against unfunded and funded credit facilities extended to them in the normal course of business. Margin Accounts carry interest rates ranging from Nil to 3.50 % p.a. (2015: Nil to 3% p.a.).

#### 17 Short term borrowings and medium term loan

##### *Short term borrowings*

	2016 AED'000	2015 AED'000
At 1 January	340,000	190,000
Additions	12,500	150,000
Repayments	(160,000)	-
At 31 December	<u>192,500</u>	<u>340,000</u>

These short-term notes and loans carry interest rates ranging from 3.13 % p.a to 5.02% p.a (2015: 2.13% p.a to 2.78% p.a).

##### *Medium term loan*

During 2015, the Group obtained a medium term loan of AED 150 million which will mature in 2018 which is repaid on quarterly instalments.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 18 Interest payable and other liabilities

	2016 AED'000	2015 AED'000
Unearned premiums	91,712	79,312
Trade payables	38,988	56,983
Accrued expenses	25,007	38,057
Interest payable	26,879	22,190
Gross claims outstanding	20,568	18,108
Profit payable	1,080	706
Other liabilities	43,242	35,161
	<u>247,476</u>	<u>250,517</u>

#### 19 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 carried a profit rate of 6 months EIBOR plus 3% or 6.25% per annum whichever is higher, payable semi-annually as periodic distribution amount. In accordance with the terms and conditions of issue, this Sukuk was early redeemed in full at par in July 2015.

#### 20 Share capital

	2016 AED'000	2015 AED'000
<b>Authorised, issued and fully paid</b>		
310.1 million shares (2015: 310.1 million shares)		
of AED 1 each (2015: AED 1 each)	<u>310,050</u>	<u>310,050</u>

#### 21 Employees' share-based payment scheme

The share-based payment scheme is administered by a trustee and gives the Board of Directors the authority to determine which employees of the Group will be granted the shares. The values of shares granted to employees are expensed in the period in which they are granted, and that of the remaining shares are included within shareholders' equity. During the period, no shares were granted to employees and the value of outstanding shares not yet granted to employees as of 31 December 2016 was AED 1,750 thousand (2015: AED 1,750 thousand).

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 22 Statutory reserve

In line with the provisions of the UAE Federal Commercial Companies Law No. 2 of 2015, 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.

#### 23 Dividend

The Company's General Assembly in their annual meeting held on 18 April 2016 approved a cash dividend of AED 10 fils per share (2015: nil per share) amounting to AED 30,945 thousand (2015: nil) in total and stock dividend of AED nil (2015: AED 7,550 thousand). The dividend was approved by the U.A.E Central Bank and paid during the year.

#### 24 Treasury shares

Treasury shares represent the cost of 4,452 thousand shares of the Company held by the Company and a subsidiary as at 31 December 2016 (2015: 2,790 thousand shares).

	2016		2015	
	Number of shares '000	AED'000	Number of Shares '000	AED'000
Share held by Finance House PJSC	2,264	5,027	602	2,043
Share held by Insurance House PJSC	2,188	7,560	2,188	7,707
	<b>4,452</b>	<b>12,587</b>	<b>2,790</b>	<b>9,750</b>

During 2014, the Company obtained the necessary regulatory approvals to undertake a share buy-back programme. During 2016, a total of 1,662 thousand (2015: 130 thousand) shares were purchased from the market at an average price of AED 1.79 (2015: AED 2.49) per share amounting to AED 2,837 thousand (2015: AED 480 thousand).

#### 25 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 25 Commitments and contingent liabilities (continued)

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

	2016 AED'000	2015 AED'000
Letters of credit	161,195	229,469
Letters of guarantee	1,438,541	1,406,685
Capital commitments	24	7,357
Irrevocable commitments to extend credit	370,121	161,474
	<u>1,969,881</u>	<u>1,804,985</u>

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

#### 26 Net interest income and income from Islamic financing and investing assets

	2016 AED'000	2015 AED'000
Due from banks	8,467	7,154
Loans and advances	238,916	192,421
Income from Islamic financing and investing assets	24,525	22,763
Others	10,256	10,552
<b>Interest income and income from Islamic financing and investing assets</b>	<u>282,164</u>	<u>232,890</u>
Customer deposits	(48,726)	(48,110)
Profit distributable to depositors	(2,975)	(3,277)
Due to banks	(10,696)	(8,618)
<b>Interest expense and profit distributable to depositors</b>	<u>(62,397)</u>	<u>(60,005)</u>
<b>Net interest income and income from Islamic financing and investing assets</b>	<u>219,767</u>	<u>172,885</u>

No interest income is recognised on impaired loans and advances.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 27 Net fee and commission income

	2016 AED'000	2015 AED'000
<b>Fee and commission income</b>		
Corporate and commercial finance activities	26,210	28,086
Retail finance activities	34,288	29,267
	<u>60,498</u>	<u>57,353</u>
Fee and commission expense	(12,478)	(12,765)
<b>Net fee and commission income</b>	<u>48,020</u>	<u>44,588</u>

#### 28 Net contract loss

Contract revenue	-	1,481
Contract costs	-	(3,155)
<b>Net contract loss</b>	<u>-</u>	<u>(1,674)</u>

#### 29 Net insurance income

<b>Net insurance premiums earned</b>		
Gross premiums written	152,941	119,922
Change in unearned premium provision	(22,187)	(22,980)
Premium income earned	<u>130,754</u>	<u>96,942</u>
Re-insurance premiums ceded	(37,886)	(41,655)
Change in re-insurance portion of unearned premium provision	5,174	16,535
Re-insurance premium ceded	<u>(32,712)</u>	<u>(25,120)</u>
	<u>98,042</u>	<u>71,822</u>
<b>Net insurance claims incurred</b>		
Claims paid	(102,505)	(70,171)
Outstanding claims expenses	(10,723)	(8,230)
Movements in reserves	(4,281)	(3,688)
Claims recovered from re-insurers	29,956	14,943
	<u>(87,553)</u>	<u>(67,146)</u>
<b>Net insurance commission loss</b>		
Insurance commission income	4,441	7,640
Insurance commission expense	(7,267)	(11,580)
	<u>(2,826)</u>	<u>(3,940)</u>
<b>Net insurance income</b>	<u>7,663</u>	<u>736</u>

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 30 Net income from investments

	2016 AED'000	2015 AED'000
Gain on disposal of investments carried at fair value through profit or loss	5,441	3,411
Change in fair value of investments carried at fair value through profit or loss	16,086	(7,899)
Dividends from investments carried at fair value through profit or loss	8,479	8,655
Net income from investments carried at fair value through profit or loss	30,006	4,167
Dividend income from investments carried at fair value through other comprehensive income	9,488	11,850
Profit on disposal of investments carried at amortised cost	713	1,846
<b>Net income from investments</b>	<b>40,207</b>	<b>17,863</b>

#### 31 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 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 basic and diluted earnings per share is based on the following data:

	2016 AED'000	2015 AED'000
Profit for the year attributable to equity holders of the parent (AED '000)	40,296	68,571
Less: Tier 1 Sukuk paid	(22,478)	(8,125)
Less: Proposed directors remuneration	(2,076)	(5,371)
	15,742	55,075
Number of ordinary shares in issue ('000)	310,050	310,050
Less: Treasury shares ('000)	(4,452)	(2,790)
Less: Employees' share-based payment scheme ('000)	(1,750)	(1,750)
	303,848	305,510
<b>Earnings per share (AED)</b>	<b>0.05</b>	<b>0.18</b>



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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 32 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:

	2016 AED'000	2015 AED'000
<b>Loans and advances</b>		
To key management staff	811	686
To members of Board of Directors	8,732	10,911
To others	4,035	11,559
<b>Customers' deposits</b>		
From others	13,704	9,318

Significant transactions with related parties during the year were as follows:

	For the year ended 31 December	
	2016 AED'000	2015 AED'000
<b>Interest income</b>		
From key management	23	14
From Board of Directors	751	579
From others	-	301
<b>Interest expense</b>		
To others	95	59
<b>Key management remuneration</b>		
Short term benefits (salaries, benefits and bonuses)	24,283	22,894

Balances with related parties include loans granted to Directors and their related parties in the normal course of business amounting to AED 8,732 thousand as at 31 December 2016 (2015: AED 10,911 thousand). Although this is not permitted under Article 153 (3) of the Companies Law, the Group is in the process of seeking clarification with respect of the applicability of this article to finance companies regulated by the UAE Central Bank.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 33 Construction contracts

	For the year ended 31 December	
	2016	2015
	AED'000	AED'000
Construction costs incurred plus recognized profits		
less recognised losses to date	17,236	753,922
Less : progress billings to date	(15,208)	(749,768)
	<u>2,028</u>	<u>4,154</u>
Recognised and included in the consolidated financial statements as amounts due from customers under construction contracts (note 15)	<u>2,028</u>	<u>4,154</u>

#### 34 Assets classified as held for sale

During the year, the Group announced its intention to dispose of two of its assets and initiated an active program to locate a buyer for those assets. The associated assets and liabilities were consequently presented as held for sale in the consolidated financial statements.

The following assets and liabilities were reclassified as held for sale:

	2016	2015
	AED'000	AED'000
Investment property	83,000	83,800
Other assets	42,215	42,215
	<u>125,215</u>	<u>126,015</u>
Other liabilities	<u>29,902</u>	<u>29,902</u>

Income of AED 6,885 (2015: AED 10,189 thousand) related to above assets, was reclassified as net income from assets held for sale in the consolidated income statement.

#### *Commercial Building Al Nahyan Abu Dhabi*

The 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. To value the property, the independent valuer has used the current rental income and adjusted for outgoings such as void period and maintenance towards the property. The prime location, maintenance and occupancy levels are also considered.

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

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)**

#### **35 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 for the year ended 31 December 2016 (continued)

### 35 Segmental information (continued)

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

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

	Year ended 31 December 2016							
	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	237,671	9,123	25,503	-	7,440	2,427	-	282,164
Interest expense and profit distributable to depositors	(48,726)	(8,608)	(2,975)	-	(2,088)	-	-	(62,397)
Net income from perpetual instruments	-	25,605	-	-	-	-	-	25,605
Net fee and commission income	39,849	-	1,631	-	6,540	-	-	48,020
Net insurance income	-	-	-	-	-	7,663	-	7,663
Net investment income	-	40,207	-	-	-	-	-	40,207
Share of results of an associate	-	(1,210)	-	-	-	-	-	(1,210)
Other operating income	2,484	3,076	-	5,457	60	2,984	-	14,061
<b>Total operating income</b>	<b>231,278</b>	<b>68,193</b>	<b>24,159</b>	<b>5,457</b>	<b>11,952</b>	<b>13,074</b>	<b>-</b>	<b>354,113</b>
Depreciation of property, fixtures and equipment	-	(175)	(932)	(123)	(646)	(974)	(4,459)	(7,309)
Other expenses and charges	(47,174)	(10,044)	(15,700)	(4,555)	(8,033)	(30,674)	(77,640)	(193,820)
<b>Total expenses and other charges</b>	<b>(47,174)</b>	<b>(10,219)</b>	<b>(16,632)</b>	<b>(4,678)</b>	<b>(8,679)</b>	<b>(31,648)</b>	<b>(82,099)</b>	<b>(201,129)</b>
<b>Profit (loss) for the year before impairment</b>	<b>184,104</b>	<b>57,974</b>	<b>7,527</b>	<b>779</b>	<b>3,273</b>	<b>(18,574)</b>	<b>(82,099)</b>	<b>152,984</b>
Net impairment charges on loans and advances	(95,195)	-	-	-	-	-	-	(95,195)
Net impairment charges on Islamic financing and investing assets	-	-	(26,575)	-	-	-	-	(26,575)
<b>Profit (loss) for the year after impairment</b>	<b>88,909</b>	<b>57,974</b>	<b>(19,048)</b>	<b>779</b>	<b>3,273</b>	<b>(18,574)</b>	<b>(82,099)</b>	<b>31,214</b>
Income from assets classified as held for sale	-	6,885	-	-	-	-	-	6,885
<b>Net Profit (loss) for the year</b>	<b>88,909</b>	<b>64,859</b>	<b>(19,048)</b>	<b>779</b>	<b>3,273</b>	<b>(18,574)</b>	<b>(82,099)</b>	<b>38,099</b>
Segmental assets	1,873,560	1,843,128	281,369	4,368	192,680	217,238	-	4,412,343
Segmental liabilities	1,827,277	1,184,613	192,883	16,334	116,002	121,482	-	3,458,591
Additions to non-current assets during the year	-	34	806	-	59	804	4,738	6,441

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 35 Segmental information (continued)

##### 35.1 Products and services from which reportable segments derive their revenues (continued)

	Year ended 31 December 2015							
	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	191,532	10,400	22,763	-	7,935	260	-	232,890
Interest expense and profit distributable to depositors	(47,282)	(6,589)	(3,277)	-	(2,857)	-	-	(60,005)
Net income from perpetual instruments	-	25,557	-	-	-	-	-	25,557
Net fee and commission income	34,984	-	2,334	-	7,270	-	-	44,588
Net contract income	-	-	-	(1,674)	-	-	-	(1,674)
Net insurance loss	-	-	-	-	-	736	-	736
Profit distributable to sukuk holders	-	(5,129)	-	-	-	-	-	(5,129)
Net investment income	-	17,863	-	-	-	-	-	17,863
Share of results of an associate	-	7,180	-	-	-	-	-	7,180
Other operating income	1,726	59,032	-	1,322	-	-	-	62,080
<b>Total operating income (loss)</b>	<b>180,960</b>	<b>108,314</b>	<b>21,820</b>	<b>(352)</b>	<b>12,348</b>	<b>996</b>	<b>-</b>	<b>324,086</b>
Depreciation of property, fixtures and equipment	-	(164)	(669)	(320)	(556)	(1,068)	(3,673)	(6,450)
Other expenses and charges	(46,609)	(11,344)	(14,354)	(1,410)	(8,165)	(27,279)	(71,057)	(180,218)
<b>Total expenses and other charges</b>	<b>(46,609)</b>	<b>(11,508)</b>	<b>(15,023)</b>	<b>(1,730)</b>	<b>(8,721)</b>	<b>(28,347)</b>	<b>(74,730)</b>	<b>(186,668)</b>
<b>Profit (loss) for the year before impairment</b>	<b>134,351</b>	<b>96,806</b>	<b>6,797</b>	<b>(2,082)</b>	<b>3,627</b>	<b>(27,351)</b>	<b>(74,730)</b>	<b>137,418</b>
Net impairment charges on loans and advances	(80,147)	-	-	-	-	-	-	(80,147)
Net impairment charges on Islamic financing and investing assets	-	-	(5,763)	-	-	-	-	(5,763)
<b>Profit (loss) for the year after impairment</b>	<b>54,204</b>	<b>96,806</b>	<b>1,034</b>	<b>(2,082)</b>	<b>3,627</b>	<b>(27,351)</b>	<b>(74,730)</b>	<b>51,508</b>
Income from assets classified as held for sale	-	10,189	-	-	-	-	-	10,189
<b>Net Profit(loss) for the year</b>	<b>54,204</b>	<b>106,995</b>	<b>1,034</b>	<b>(2,082)</b>	<b>3,627</b>	<b>(27,351)</b>	<b>(74,730)</b>	<b>61,697</b>
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
Additions to non-current assets during the year	-	178	2,408	-	1,389	1,256	5,099	10,330

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)**

#### **35 Segmental information (continued)**

##### **35.1 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.

##### **35.2 Geographical information**

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

##### **35.3 Information about major customers**

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

#### **36 Risk management**

##### **36.1 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.

###### *(a) 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 Group Chief Risk Officer who take responsibility for identifying and controlling the risks.

###### *(i) 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.

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)**

#### **36 Risk management (continued)**

##### **36.1 Introduction (continued)**

*(a) Risk management structure (continued)*

*(ii) Audit Committee*

The Audit Committee comprises three members who are also part of 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.

*(iii) 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.

*(iv) Investment and Credit Committee (ICC)*

All major business proposals of clients are approved through the ICC. The ICC is a sub-committee of the Board of Directors. The approval process and the authorities vested with the ICC 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.

*(v) Risk Management Department (RMD)*

The RMD is an independent unit reporting to the Group Chief Risk Officer. The RMD 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 RMD also monitors compliance with the regulatory procedures and anti-money laundering monitoring procedures of the Group.

*(vi) 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.1 Introduction (continued)

###### (a) Risk management structure (continued)

###### (vii) 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.

###### (b) 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 RMD, 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. RMD 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.

###### (c) 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.

###### (d) 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.



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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.1 Introduction (continued)

###### (e) Risk concentration (continued)

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 5, 6 and 7. Information on credit risk relating to investments is provided in note 36.3.

##### 36.2 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.

###### (a) 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 2016.

	Effect on profit AED'000
<b>2016</b>	
+100 increase in basis point	10,007
-100 decrease in basis point	(7,126)
<b>2015</b>	
+100 increase in basis point	10,027
-100 decrease in basis point	(10,027)

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.2 Market risk (continued)

###### (b) 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. Exposure to other currencies is insignificant to the overall Group.

###### (c) 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.

	Assumed level of change	Impact on net income 2016 AED'000	Impact on net income 2015 AED'000
<b>Investments carried at fair value through profit or loss</b>			
Abu Dhabi Securities Market Index	2%	2,463	2,392
Dubai Financial Market Index	2%	1,582	2,540
Fixed income securities	2%	50	183

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.2 Market risk (continued)

###### (d) Price risk (continued)

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.

	Assumed level of change	Impact on equity 2016 AED'000	Impact on equity 2015 AED'000
<b>Investments carried at fair value through other comprehensive income</b>			
Abu Dhabi Securities Market Index	2%	3,024	2,737
Dubai Financial Market Index	2%	938	708
Kuwait Stock Exchange	2%	488	588

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.

##### 36.3 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.3 Credit risk (continued)

##### Credit-related commitments risks (continued)

(a) *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.

	Gross maximum exposure 2016 AED'000	Gross maximum exposure 2015 AED'000
Balances with U.A.E. Central Bank	19,654	26,015
Due from banks	757,741	1,252,028
Loans and advances	2,053,529	2,102,534
Islamic financing and investing assets	180,016	201,189
Investments carried at fair value through other comprehensive income	380,682	367,828
Investments (debt instruments)	128,569	167,193
Statutory deposit	6,000	6,000
Other assets subject to credit risk	122,914	117,708
	<b>3,649,105</b>	<b>4,240,495</b>
Contingent liabilities	1,599,736	1,636,154
Commitments	370,145	161,474
<b>Total</b>	<b>5,618,986</b>	<b>6,038,123</b>

(b) *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 2016 was AED 390,768 thousand (2015: AED 355,075 thousand) before taking account of collateral or other credit enhancements and AED 44,379 thousand (2015: AED 38,024 thousand) net of such protection, respectively.

	2016 AED'000	2015 AED'000
<b>Geographic region</b>		
U.A.E.	3,252,976	3,475,832
Other Arab countries	88,059	82,348
Europe	243,754	614,940
U.S.A.	-	3,030
Rest of the world	64,316	64,345
<b>Financial assets subject to credit risk</b>	<b>3,649,105</b>	<b>4,240,495</b>

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.3 Credit risk (continued)

##### Credit-related commitments risks (continued)

###### (b) Credit risk concentration (continued)

	2016 AED'000	2015 AED'000
<b>Industry sector</b>		
Commercial and business	1,846,901	1,956,219
Personal	411,854	361,881
Banks and financial institutions	1,286,646	1,813,064
Others	103,704	109,331
<b>Financial assets subject to credit risk</b>	<b>3,649,105</b>	<b>4,240,495</b>

###### (c) 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 16,333 as at 31 December 2016 (2015: AED 15,401 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.3 Credit risk (continued)

##### Credit-related commitments risks (continued)

###### (d) 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.

	Neither past due nor impaired		Past due or individually impaired	Total
	Pass grade AED'000	Watch grade AED'000	AED'000	AED'000
<b>2016</b>				
Balances with U.A.E. Central Bank	19,654	-	-	19,654
Due from banks	757,741	-	-	757,741
Loans and advances	1,891,746	10,305	151,478	2,053,529
Islamic financing and investing assets	174,503	-	5,513	180,016
Investments carried at fair value through other comprehensive income	380,682	-	-	380,682
Investment carried at amortised cost	128,569	-	-	128,569
Statutory deposit	6,000	-	-	6,000
Other assets	122,914	-	-	122,914
<b>Total</b>	<b>3,481,809</b>	<b>10,305</b>	<b>156,991</b>	<b>3,649,105</b>
<b>2015</b>				
Balances with U.A.E. Central Bank	26,015	-	-	26,015
Due from banks	1,252,028	-	-	1,252,028
Loans and advances	1,904,944	99,701	97,889	2,102,534
Islamic financing and investing assets	197,605	-	3,584	201,189
Investments carried at fair value through other comprehensive income	367,828	-	-	367,828
Investment carried at amortised cost	167,193	-	-	167,193
Statutory deposit	6,000	-	-	6,000
Other assets	117,708	-	-	117,708
<b>Total</b>	<b>4,039,321</b>	<b>99,701</b>	<b>101,473</b>	<b>4,240,495</b>

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.3 Credit risk (continued)

###### (d) Credit quality per class of financial assets (continued)

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

	Less than 30 days AED'000	31 to 60 Days AED'000	61 to 90 days AED'000	More than 91 days AED'000	Total AED'000
<b>2016</b>					
Past due but not impaired	42,259	23,709	2,735	2,276	70,979
Impaired	-	-	-	86,012	86,012
Total past due or impaired	42,259	23,709	2,735	88,288	156,991
<b>2015 (Restated)</b>					
Past due but not impaired	21,618	2,609	7,138	17,840	49,205
Impaired	-	-	-	52,268	52,268
Total past due or impaired	21,618	2,609	7,138	70,108	101,473

##### 36.4 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.4 Liquidity risk and funding management (continued)

##### 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 2016 based on contractual maturities.

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>ASSETS</b>					
Cash and balances with U.A.E. Central Bank	27,042	-	-	-	27,042
Due from banks and financial institutions	717,432	40,309	-	-	757,741
Loans and advances, net	620,496	462,091	668,462	302,480	2,053,529
Islamic financing and investing assets	54,720	48,662	73,325	3,309	180,016
Investments, including associate	310,964	149,918	230,506	404,849	1,096,237
Statutory deposit	-	-	-	6,000	6,000
Other assets	32,151	90,763	-	-	122,914
Financial assets	1,762,805	791,743	972,293	716,638	4,243,839
Non-financial assets	21,223	125,215	14,676	7,750	168,864
<b>Total assets</b>	<b>1,784,028</b>	<b>916,958</b>	<b>986,969</b>	<b>724,388</b>	<b>4,412,343</b>
<b>LIABILITIES</b>					
Due to banks	-	47,175	-	-	47,175
Customers' deposits and margin accounts	610,698	1,314,417	916,867	-	2,841,982
Short term borrowings and medium term loans	45,000	197,500	37,500	-	280,000
Other liabilities	63,819	66,938	-	-	130,757
Financial liabilities	719,517	1,626,030	954,367	-	3,299,914
Non-financial liabilities	25,007	121,614	-	12,056	158,677
<b>Total liabilities</b>	<b>744,524</b>	<b>1,747,644</b>	<b>954,367</b>	<b>12,056</b>	<b>3,458,591</b>
<b>2016</b>					
Contingent liabilities	1,196,036	271,019	132,450	231	1,599,736
Commitments	370,145	-	-	-	370,145
<b>Total</b>	<b>1,566,181</b>	<b>271,019</b>	<b>132,450</b>	<b>231</b>	<b>1,969,881</b>



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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.4 Liquidity risk and funding management (continued)

The maturity profile of the Group's assets and liabilities at 31 December 2015 was as follows:

	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>ASSETS</b>					
Cash and balances with U.A.E. Central Bank	33,417	-	-	-	33,417
Due from banks and financial institutions	1,229,642	22,386	-	-	1,252,028
Loans and advances, net	593,096	553,700	867,413	88,325	2,102,534
Islamic financing and investing assets	58,207	47,344	94,590	1,048	201,189
Investments, including associate	276,744	29,412	447,422	403,537	1,157,115
Statutory deposit	-	-	-	6,000	6,000
Other assets	59,169	58,539	-	-	117,708
Financial assets	2,250,275	711,381	1,409,425	498,910	4,869,991
Non-financial assets	21,674	42,215	15,638	92,333	171,860
<b>Total assets</b>	<b>2,271,949</b>	<b>753,596</b>	<b>1,425,063</b>	<b>591,243</b>	<b>5,041,851</b>
<b>LIABILITIES</b>					
Due to banks	39,187	34,120	-	-	73,307
Customers' deposits	1,255,476	1,292,747	608	8,749	2,557,580
Margin accounts	-	-	688,095	-	688,095
Short term borrowings and medium term loans	170,000	207,500	100,000	-	477,500
Other liabilities	38,356	160,224	-	13,693	212,273
Financial liabilities	1,503,019	1,694,591	788,703	22,442	4,008,755
Non-financial liabilities	78,911	-	-	-	78,911
<b>Total liabilities</b>	<b>1,581,930</b>	<b>1,694,591</b>	<b>788,703</b>	<b>22,442</b>	<b>4,087,666</b>
<b>2015</b>					
Contingent liabilities	1,176,458	346,118	112,992	586	1,636,154
Commitments	168,831	-	-	-	168,831
<b>Total</b>	<b>1,345,289</b>	<b>346,118</b>	<b>112,992</b>	<b>586</b>	<b>1,804,985</b>

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 36 Risk management (continued)

##### 36.4 Liquidity risk and funding management (continued)

The table below represents the projected interest cash out-flow on the above disclosed material financial liabilities:

	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
2015					
Customers' deposits	1,626	7,175	9	1	8,811
Term loan and short term borrowings	521	1,906	2,450	-	4,877

##### 36.5 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.

##### 36.6 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  
for the year ended 31 December 2016 (continued)**

**37 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.

*Fair value hierarchy:*

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market priced or dealer priced quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Observable prices and model inputs are usually available in the market for listed equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 37 Fair value measurement (continued)

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 2016:

	Date of Valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>Assets measured at fair value</b>					
Non-current assets classified as held for sale	21 December 2016	-	-	125,215	125,215
<b>At fair value through profit or loss</b>					
Quoted equities	31 December 2016	202,243	-	-	202,243
Quoted debt instruments	31 December 2016	2,523	-	-	2,523
		<u>204,766</u>	<u>-</u>	<u>-</u>	<u>204,766</u>
<b>At fair value through other comprehensive income</b>					
Quoted equities	31 December 2016	603,196	-	-	603,196
Unquoted equities	31 December 2016	-	12,846	87,305	100,151
Investment in managed funds	31 December 2016	-	9,078	-	9,078
	31 December 2016	<u>603,193</u>	<u>21,924</u>	<u>87,305</u>	<u>712,422</u>
<b>Assets for which fair value is disclosed</b>					
Investment carried at amortised cost	31 December 2016	-	128,631	-	128,631

The fair values of the Group's financial assets and liabilities that are carried at amortised cost approximate to their carrying amount as disclosed in these financial statements. For the long-term financial assets and liabilities, management doesn't expect to have a material difference between the carrying amount and the fair value.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 37 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
<b>Assets measured at fair value</b>					
Non-current assets classified as held for sale	20 December 2015	-	-	126,015	126,015
<b>At fair value through profit or loss</b>					
Quoted equities	31 December 2015	246,605	-	-	246,605
Quoted debt instruments	31 December 2015	9,139	-	-	9,139
		<u>255,744</u>	<u>-</u>	<u>-</u>	<u>255,744</u>
<b>At fair value through other comprehensive income</b>					
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	<u>569,495</u>	<u>23,021</u>	<u>89,975</u>	<u>682,491</u>
<b>Assets for which fair value is disclosed</b>					
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 and unlisted equities, Tier 1 Capital instruments and private equity funds. Listed equity and Tier 1 Capital instruments 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 unquoted equities, the financial statements provide the valuations of these investments which are arrived at primarily by using 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.

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

### Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

#### 37 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.

	<b>Valuation technique</b>	<b>Significant unobservable inputs to valuation</b>	<b>Range (Weighted average)</b>	<b>Sensitivity of the input to fair value</b>
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: Nil).

#### 38 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:

	2016 AED'000	2015 AED'000
Total capital base	<u>985,592</u>	<u>982,965</u>
<b>Risk weighted assets:</b>		
Statement of financial position items	3,506,765	3,732,267
Off statement financial position exposures	<u>497,335</u>	<u>488,824</u>
<b>Total risk weighted assets</b>	<u>4,004,100</u>	<u>4,221,091</u>
<b>Total assets ratio (%)</b>	<u>24.6%</u>	<u>23.3%</u>

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

### **Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)**

#### **39 Seasonality of results**

No income of a seasonal nature was recorded in the consolidated income statement for the year ended 31 December 2016 and 31 December 2015.

#### **40 Legal proceeding**

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 consolidated financial statements if disposed unfavourably.