

Finance House P.J.S.C.

**Consolidated financial statements
for the year ended 31 December 2017**

Finance House P.J.S.C.

**Consolidated financial statements
for the year ended 31 December 2017**

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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 2017, 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 2017;
- the consolidated income statement 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



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

Key audit matter

- Impairment of loans and advances and Islamic financing and investing assets

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)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
<p><u>Impairment of loans and advances, Islamic financing and investing assets (refer to note 6 and 7)</u></p> <p>At 31 December 2017, the gross loans and advances and Islamic financing and investing assets were AED 2,775 million against which impairment provisions of AED 265.5 million were maintained. The impairment provision included 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 impairment provisions.</p> <p>In particular, the determination of impairment against loans and advances include:</p> <ul style="list-style-type: none">• The identification of impairment events and methods and judgments used to calculate impairment against specific corporate loans and advances;• 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. <p><i>Refer to the significant accounting policies note 2.5 to the consolidated 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 included the following;</p> <ul style="list-style-type: none">• manual controls over the timely identification of impaired loans and advances;• the transfer of data between underlying source systems and the impairment models that the Group operates; and• the review and approval process that management has in place for the outputs of the Group's impairment models. <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 non-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 calculations. 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 (such as the emergence factor...etc), 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

The Directors are 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 the Directors 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, the Directors 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 the Directors 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.



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

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.

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 the Directors'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.



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

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 investments made by the group during the year;
- (vi) note 27 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 2017 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 2017; 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 2017.

For and on behalf of PricewaterhouseCoopers Abu Dhabi, UAE

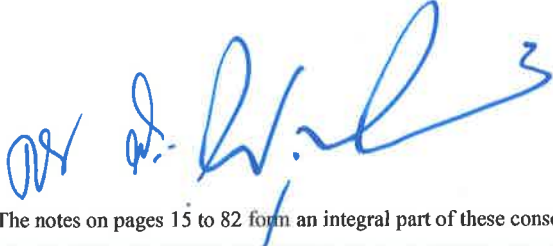
Jacques E. Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

12 February 2018

Finance House P.J.S.C.

Consolidated statement of financial position

	Note	As at 31 December	
		2017 AED'000	2016 AED'000
ASSETS			
Cash balances	4	17,437	13,388
Due from banks	4	701,032	777,395
Investments carried at fair value through other comprehensive income	5	716,341	712,425
Investments carried at fair value through profit or loss	5	176,358	204,766
Investments carried at amortised cost	5	81,654	128,569
Loans and advances	6	2,335,801	2,053,529
Islamic financing and investing assets	7	173,370	180,016
Investment in an associate	8	51,720	50,477
Interest receivable and other assets	12	208,200	144,137
Property, fixtures and equipment	10	13,890	14,676
Intangibles	11	6,966	7,750
Investment properties	29	82,070	-
		4,564,839	4,287,128
Assets classified as held for sale	28	-	125,215
Total assets		4,564,839	4,412,343
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	310,050	310,050
Treasury shares	20	(21,402)	(12,587)
Employees' share-based payment scheme	17	(1,750)	(1,750)
Statutory reserve	18	146,185	142,752
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		(6,305)	17,493
Retained earnings		117,349	133,327
Tier 1 Sukuk	9	283,550	288,700
Proposed directors' remuneration		3,090	1,976
		830,767	879,961
Non-controlling interests	3	72,432	73,791
Net Total equity		903,199	953,752

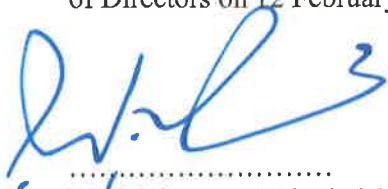


Finance House P.J.S.C.

Consolidated statement of financial position (continued)

	Note	As at 31 December	
		2017 AED'000	2016 AED'000
LIABILITIES			
Customers' deposits and margin accounts	13	2,950,544	2,841,982
Due to banks and other financial institutions	4	23,831	47,175
Short term borrowings	14	266,410	192,500
Medium term loans	14	120,834	87,500
Interest payable and other liabilities	15	286,397	247,476
Provision for employees' end of service benefits		13,624	12,056
		<u>3,661,640</u>	<u>3,428,689</u>
Liabilities associated with assets classified as held for sale		-	29,902
Total liabilities		<u>3,661,640</u>	<u>3,458,591</u>
Total equity and liabilities		<u>4,564,839</u>	<u>4,382,441</u>
Commitments and contingent liabilities	21	<u>1,950,461</u>	<u>1,969,881</u>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 February 2018 and were signed on its behalf by:



.....
Mr. Mohammed Alqubaisi
CHAIRMAN



.....
Mr. Hamid Taylor
GENERAL MANAGER



Finance House P.J.S.C.

Consolidated income statement

	Note	Year ended 31 December	
		2017 AED'000	2016 AED'000
Interest income and income from Islamic financing and investing assets	22	244,899	282,164
Interest expense and profit distributable to depositors	22	(74,034)	(62,397)
Net interest income and income from Islamic financing and investing assets	22	170,865	219,767
Income from Tier 1 Capital Instruments	5	25,773	25,605
Interest income, income from Islamic financing and investing assets and net income from Tier 1 capital instruments		196,638	245,372
Net fee and commission income	23	47,480	48,020
Net insurance income	24	12,681	7,663
Net (loss)/income from investments	25	(1,159)	40,207
Gain on disposal of a subsidiary		15,001	-
Share of profit/(loss) of associate	8	1,243	(1,210)
Other operating income		24,183	20,946
Total operating income		296,067	360,998
Salaries and employees related expenses	30	(125,168)	(122,395)
Net impairment charges on loans and advances and Islamic financing and investing assets	6, 7	(46,459)	(121,770)
Outsourced employees' cost		(34,702)	(26,173)
Rent		(10,414)	(9,982)
Depreciation of property, fixtures and equipment	10	(7,170)	(7,309)
Change in fair value of investment properties	29	(6,000)	-
Other expenses		(33,540)	(35,270)
Profit for the year		32,614	38,099
Attributable to:			
Equity holders of the parent		34,330	40,296
Non-controlling interests	3	(1,716)	(2,197)
		32,614	38,099
Basic and diluted earnings per share attributable to ordinary shares (AED)	26	0.03	0.05

Finance House P.J.S.C.

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2017 AED'000	2016 AED'000
Profit for the year		<u>32,614</u>	<u>38,099</u>
Other comprehensive income			
<i>Items that will not be reclassified to consolidated income statement:</i>			
Change in fair value of investments carried at fair value through other comprehensive income		(26,556)	32,264
Directors' remuneration paid		<u>(1,976)</u>	<u>(5,371)</u>
Other comprehensive (loss)/profit for the year		<u>(28,532)</u>	<u>26,893</u>
Total comprehensive income for the year		<u><u>4,082</u></u>	<u><u>64,992</u></u>
Attributable to:			
Equity holders of the parent		5,441	66,502
Non-controlling interests	3	<u>(1,359)</u>	<u>(1,510)</u>
		<u><u>4,082</u></u>	<u><u>64,992</u></u>

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Finance House P.J.S.C.

Consolidated statement of changes in equity

	Note	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		Total AED'000
										shareholders of the parent company AED'000	Non controlling interests AED'000	
2017												
Balance at 1 January 2017		310,050	(12,587)	(1,750)	142,752	17,493	133,327	1,976	288,700	879,961	73,791	953,752
Profit for the year		-	-	-	-	-	34,330	-	-	34,330	(1,716)	32,614
Change in fair value of investments carried at fair value through other comprehensive income		-	-	-	-	(26,913)	-	-	-	(26,913)	(334)	(27,247)
Loss on disposal of investments carried at fair value through other comprehensive income		-	-	-	-	3,115	(3,115)	-	-	-	691	691
Directors' remuneration paid		-	-	-	-	-	-	(1,976)	-	(1,976)	-	(1,976)
Proposed directors' remuneration	19	-	-	-	-	-	(3,090)	3,090	-	-	-	-
Cash dividends paid		-	-	-	-	-	(18,170)	-	-	(18,170)	-	(18,170)
Transfer to statutory reserve		-	-	-	3,433	-	(3,433)	-	-	-	-	-
Purchase of treasury shares	20	-	(8,815)	-	-	-	-	-	-	(8,815)	-	(8,815)
Elimination of Tier 1 Sukuk held by subsidiaries	9	-	-	-	-	-	-	-	(5,150)	(5,150)	-	(5,150)
Tier 1 Sukuk coupon paid		-	-	-	-	-	(22,500)	-	-	(22,500)	-	(22,500)
Balance at 31 December 2017		310,050	(21,402)	(1,750)	146,185	(6,305)	117,349	3,090	283,550	830,767	72,432	903,199

Finance House P.J.S.C.

Consolidated statement of changes in equity (continued)

Note	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
Balance at 1 January 2016	310,050	(9,750)	(1,750)	138,722	(57,858)	196,234	5,371	297,850	878,869	75,316	954,185
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)
Proposed directors' remuneration	-	-	-	-	-	(1,976)	1,976	-	-	-	-
Cash dividend paid	-	-	-	-	-	(30,945)	-	-	(30,945)	-	(30,945)
Transfer to statutory reserve	-	-	-	4,030	-	(4,030)	-	-	(2,837)	-	(2,837)
Purchase of treasury shares	-	(2,837)	-	-	-	-	-	-	-	-	-
Decrease in non-controlling interest	-	-	-	-	-	-	-	-	-	(15)	(15)
Elimination of Tier 1 Sukuk held by subsidiaries	-	-	-	-	-	-	-	(9,150)	(9,150)	-	(9,150)
Tier 1 Sukuk coupon paid	-	-	-	-	-	(22,478)	-	-	(22,478)	-	(22,478)
Balance at 31 December 2016	310,050	(12,587)	(1,750)	142,752	17,493	133,327	1,976	288,700	879,961	73,791	953,752

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Finance House P.J.S.C.

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2017 AED'000	2016 AED'000
Cash flows from operating activities			
Profit for the year		32,614	38,099
Adjustments for:			
Depreciation of property, fixtures and equipment	10	7,170	7,309
Amortisation of intangibles	11	784	783
Loss on fair valuation of assets classified as held for sale		-	800
Profit on disposal of investments carried at amortised cost	25	-	(713)
Change in fair valuation of investment properties		6,000	-
Share of results of an associate		(1,243)	1,210
Dividend income from investments	25	(27,501)	(17,967)
Gain/(loss) on disposal of investments carried at fair value through profit or loss	25	5,925	(5,441)
Change in fair value of investments carried at fair value through profit or loss	25	22,735	(16,086)
Net impairment charges on loans and advances and of Islamic financing and investing assets	6,7	55,959	121,770
Net movement in provision for employees' end of service benefits		1,568	1,291
Operating cash flows before changes in working capital		104,011	131,055
Changes in working capital			
Loans and advances		(325,708)	(46,190)
Islamic financing and investing assets		(5,877)	(5,402)
Interest receivable and other assets		(64,063)	(4,755)
Assets held for sale		12,313	-
Customers' deposits and margin accounts		108,562	(403,693)
Interest payable and other liabilities		38,921	(3,041)
Net cash outflow from operating activities		(131,841)	(332,026)
Cash flow from investing activities			
Purchase of investments carried at fair value through other comprehensive income		(69,367)	(71,620)
Proceeds from sale of investments carried at fair value through other comprehensive income		38,895	73,950
Purchase of investments carried at fair value through profit or loss		(226,471)	(120,741)
Proceeds from sale of investments carried at fair value through profit or loss		226,219	193,246
Purchase of investments carried at amortised cost		(41,334)	(44,097)
Proceeds from sale of investments carried at amortised cost		88,249	83,434
Addition to property, fixtures and equipment		(6,591)	(6,441)
Proceeds from disposal of property, fixtures and equipment		207	94
Acquisition of investment properties in respect of settlement of a loan	29	(5,070)	-
Dividend income received		27,501	17,967
Net cash inflow from investing activities		32,238	125,792
Cash flow from financing activities			
Proceeds from short term borrowings and medium term loans	14	223,910	12,500
Repayment of short term borrowings and medium term loans	14	(116,666)	(210,000)
Directors' remuneration paid		(1,976)	(5,371)
Movement in Tier I Sukuk		(5,150)	(9,150)
Tier I Sukuk coupon paid		(22,500)	(22,478)
Purchase of treasury shares		(8,815)	(2,837)
Change in non-controlling interest		-	(15)
Cash dividend paid		(18,170)	(30,945)
Net cash inflow/(outflow) from financing activities		50,633	(268,296)
Net decrease in cash and cash equivalents		(48,970)	(474,530)
Cash and cash equivalents, beginning of the year		737,608	1,212,138
Cash and cash equivalents, end of the year	4	688,638	737,608

The notes on pages 15 to 82 form an integral part of these consolidated financial statements.

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Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017

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.

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, Sharjah and Alain branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

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

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 12 February 2018.

The Group has not made any social contributions during the financial year ended 31 December 2017.

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 (IFRIC) 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 2017 (continued)

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

2.2.1 New standards and amendments – applicable 1 January 2017

New standards and significant amendments to standards applicable 1 January 2017	Effective date
<p data-bbox="225 584 1166 651">Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12</p> <p data-bbox="225 685 1166 786">Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:</p> <ul data-bbox="272 786 1166 1155" style="list-style-type: none"><li data-bbox="272 786 1166 853">• A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.<li data-bbox="272 853 1166 920">• An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.<li data-bbox="272 920 1166 1055">• Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.<li data-bbox="272 1055 1166 1155">• Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.	1 January 2017
<p data-bbox="225 1182 1166 1227">Disclosure Initiative – Amendments to IAS 7</p> <p data-bbox="225 1256 1166 1720">Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.</p>	1 January 2017
<p data-bbox="225 1720 1166 1765">Annual improvements 2014-2016 cycle: Amendments to IFRS 12</p> <p data-bbox="225 1794 1166 1890">The amendments clarify that the disclosure requirements of IFRS 12 apply to interests in entities that are classified as held for sale, except for the summarised financial information..</p>	1 January 2017

There are no other IFRSs that were effective for the first time for the financial year beginning 1 January 2017 that had a material impact on the Group's consolidated financial statements.

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Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2.2 New standards and amendments – not applicable 1 January 2017

New standards and amendments – not applicable 1 January 2017	Effective date
<p data-bbox="229 577 1193 611">IFRS 15, ‘Revenue from contracts with customers’</p> <p data-bbox="229 645 1193 745">The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts.</p> <p data-bbox="229 779 1193 880">The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.</p> <p data-bbox="229 913 1193 947">A new five-step process must be applied before revenue can be recognised:</p> <ul data-bbox="284 952 1193 1149" style="list-style-type: none">• identify contracts with customers• identify the separate performance obligation• determine the transaction price of the contract• allocate the transaction price to each of the separate performance obligations, and• recognise the revenue as each performance obligation is satisfied. <p data-bbox="229 1182 1193 1216">Key changes to current practice are:</p> <ul data-bbox="284 1220 1193 1720" style="list-style-type: none">• Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.• Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.• The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.• There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.• As with any new standard, there are also increased disclosures. <p data-bbox="229 1753 1193 1854">These accounting changes may have flow-on effects on the entity’s business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.</p> <p data-bbox="229 1888 1193 1933">Entities will have a choice of full retrospective application, or modified retrospective application with additional disclosures.</p>	1 January 2018 Early adoption permitted

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Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2.2 New standards and amendments – not applicable 1 January 2017 (continued)

New standards and amendments – not applicable 1 January 2017	Effective date
<p data-bbox="225 577 1190 616">Interpretation 22 Foreign Currency Transactions and Advance Consideration</p> <p data-bbox="225 645 1190 779">The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.</p> <p data-bbox="225 808 1190 913">For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary prepayment or deferred income/contract liability).</p> <p data-bbox="225 943 1190 1010">If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.</p> <p data-bbox="225 1039 1190 1077">Entities can choose to apply the interpretation:</p> <ul data-bbox="284 1106 1190 1346" style="list-style-type: none">• Retrospectively for each period presented; retrospectively for each period presented• prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or• prospectively from the beginning of a prior reporting period presented as comparative information.	1 January 2018

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2.2 New standards and amendments – not applicable 1 January 2017 (continued)

New standards and amendments – not applicable 1 January 2017	Effective date
<p data-bbox="240 577 1184 645">Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2</p> <p data-bbox="240 678 1166 943">The amendments made to AASB 2 in July 2016 clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in AASB 2. Where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.</p> <p data-bbox="240 981 1166 1048">Entities with the following arrangements are likely to be affected by these changes:</p> <ul data-bbox="240 1081 1184 1240" style="list-style-type: none">• equity-settled awards that include net settlement features relating to tax obligations• cash-settled share-based payments that include performance conditions, and• cash-settled arrangements that are modified to equity-settled share-based payments.	1 January 2018
<p data-bbox="240 1245 991 1279">Transfers of Investment Property – Amendments to IAS 40</p> <p data-bbox="240 1317 1166 1480">The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.</p> <p data-bbox="240 1514 1166 1581">The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle.</p> <p data-bbox="240 1615 799 1648">The Board provided two options for transition:</p> <p data-bbox="240 1671 1166 1771">prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or retrospectively - only permitted without the use of hindsight.</p> <p data-bbox="240 1805 1166 1865">Additional disclosures are required if an entity adopts the requirements prospectively.</p>	1 January 2018

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Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2.2 New standards and amendments – not applicable 1 January 2017 (continued)

New standards and amendments – not applicable 1 January 2017	Effective date
<p data-bbox="228 577 612 611">IFRS 17 Insurance Contracts</p> <p data-bbox="228 645 1155 775">IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:</p> <ul data-bbox="228 808 1155 943" style="list-style-type: none">• discounted probability-weighted cash flows• an explicit risk adjustment, and• a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period. <p data-bbox="228 976 1155 1106">The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.</p> <p data-bbox="228 1140 1155 1245">An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.</p> <p data-bbox="228 1279 1155 1476">There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.</p> <p data-bbox="228 1509 1155 1601">The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.</p>	1 January 2021

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Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2.2 New standards and amendments – not applicable 1 January 2017 (continued)

New standards and amendments – not applicable 1 January 2017	Effective date
<p data-bbox="229 580 456 613">IFRS 16, ‘Leases’</p> <p data-bbox="229 645 1166 842">IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.</p> <p data-bbox="229 880 1166 1010">The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.</p> <p data-bbox="229 1048 1166 1178">Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.</p> <p data-bbox="229 1216 1166 1344">The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p>	1 January 2019

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2.2 New standards and amendments – not applicable 1 January 2017 (continued)

New standards and amendments – not applicable 1 January 2017	Effective date
<p data-bbox="229 573 635 607">IFRS 9, ‘Financial instruments’</p> <p data-bbox="229 633 1165 734">IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.</p> <p data-bbox="229 761 1165 963">Classification of debt assets will be driven by the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.</p> <p data-bbox="229 990 1165 1057">All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.</p> <p data-bbox="229 1084 1165 1218">All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).</p> <p data-bbox="229 1245 1165 1379">For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.</p> <p data-bbox="229 1406 1165 1541">The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.</p>	<p data-bbox="1192 573 1378 607">1 January 2018</p> <p data-bbox="1192 611 1388 701">Earlier application is permitted.</p>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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

2.2.2 New standards and amendments – not applicable 1 January 2017 (continued)

New standards and amendments – not applicable 1 January 2017	Effective date
IFRS 9, 'Financial instruments' (continued)	
IFRS 9 further introduced changes to the classification and measurement rules and a new impairment model. The changes introduce: <ul style="list-style-type: none">• a third measurement category (FVOCI) for certain financial assets that are debt instruments• an expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.	1 January 2018 Earlier application is permitted.

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than the incurred credit losses basis as is the case under IAS 39. It applies to financial assets classified as amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The Group has reviewed and completed its assessment of the impairment provision and methodology in accordance with IFRS 9 requirements. Accordingly, retained earnings at 1 January 2018 will be reduced by AED 66.4 million to recognize the incremental impairment provision under IFRS 9.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments in 2018.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2017 that would be expected to have a material impact on the consolidated financial statements of the Group.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

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.

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.c.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.3 Consolidation and equity accounting (continued)

(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, 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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(c) Financial assets (continued)

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.
- 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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(c) Financial assets (continued)

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.

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;

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Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(c) Financial assets (continued)

Impairment of financial assets (continued)

- 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.

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.

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Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(c) Financial assets (continued)

Impairment of financial assets (continued)

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.

(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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(d) Property, fixtures and equipment (continued)

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	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.

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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(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.

(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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(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.

(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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(l) *Business combinations* (continued)

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 acquiree 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 recognised for future operating losses.

(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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(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 2017 (continued)

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 26).

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(i) *Earnings per share* (continued)

(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.

(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:

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

(u) Fair values (continued)

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

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

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 33.

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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.4 Significant accounting policies (continued)

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

(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.

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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.5 Significant accounting judgements and estimates (continued)

(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:

(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 33.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

2.5 Significant accounting judgements and estimates (continued)

(b) *Estimates and assumptions* (continued)

(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.

(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) Fair value of unquoted investments

As described in note 33, 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 33.

(vi) 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 2017 (continued)

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 2017 (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
		2017	2016	
Third Vision Investment L.L.C.	U.A.E.	-	100	Management
National Project House L.L.C.	U.A.E.	-	100	Construction
Benyan Development Company L.L.C.	U.A.E.	-	100	Construction
Emirates National Electromechanical L.L.C.	U.A.E.	-	100	Electromechanical contracting
FH Capital Limited (D.I.F.C.)	U.A.E.	-	100	Investment and asset management
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 2017 (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	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Non-controlling interests %	55.17	55.17	30	30		
Accumulated balance of material non-controlling interests	49,033	51,573	23,399	22,218	72,432	73,791
Subsidiaries' statement of financial position						
Assets	254,000	217,238	205,221	192,680	459,221	409,918
Liabilities	(162,505)	(121,482)	(124,608)	(116,002)	(287,113)	(237,484)
Net assets	91,495	95,756	80,613	76,678	172,108	172,434
Subsidiaries' revenues and profits (losses)						
Revenues, net	26,410	25,933	12,687	11,952	39,097	37,885
Net (loss) profit for the year	(5,208)	(5,715)	3,935	3,273	(1,273)	(2,442)
Net (loss) profit for the year allocated to non-controlling interest	(2,897)	(3,179)	1,181	982	(1,716)	(2,197)
Total comprehensive (loss) income for the year	(4,260)	(5,280)	3,935	3,274	(325)	(2,006)
Total comprehensive (loss) income allocated to non- controlling interest	(2,370)	(3,039)	1,181	1,038	(1,189)	(2,001)
Subsidiaries' summarized cash flow information						
Operating	24,476	13,805	20,832	(56,278)	45,308	(42,473)
Investing	5,420	49,456	(90)	155	5,330	49,611
Financing	-	(41,578)	3,566	24,806	3,566	(16,772)
Net increase (decrease) in cash and cash equivalents	29,896	21,683	24,308	(31,317)	54,204	(9,634)

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

3 Subsidiaries and partly-owned subsidiaries (continued)

During the year, the Company effected an outright sale of a subsidiary and derecognized all assets and liabilities associated with this subsidiary from the consolidated financial statements, as of the date of sale. The total assets and total liabilities as at the date of sale were AED 1,838 thousand and AED 15,839 thousand respectively. The cash consideration received on sale is AED 1,000 thousand. The resultant net gain of AED 15,001 thousand has been recognized in the income statement.

4 Cash and cash equivalents

	2017 AED'000	2016 AED'000
Cash balances		
Cash in hand	11,437	7,388
Restricted cash balances*	6,000	6,000
	<u>17,437</u>	<u>13,388</u>
Due from banks with original maturities of less than three months		
Current and demand accounts	110,761	131,438
Balance with UAE Central Bank	24,185	19,654
Placements with banks	331,309	260,309
Wakala deposits with banks	-	6,000
Call accounts	234,777	359,994
	<u>701,032</u>	<u>777,395</u>
Due to banks and other financial institutions with original maturity of less than three months	(23,831)	(47,175)
Other restricted cash balances*	(6,000)	(6,000)
Cash and cash equivalents	<u>688,638</u>	<u>737,608</u>

*Restricted cash represents deposits with insurance authority amounting to AED 6,000 thousand (2016: AED 6,000 thousand)

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

5 Investments

	At fair value through other comprehensive income AED'000	At fair value through profit or loss AED'000	At amortised cost AED'000	Total AED'000
31 December 2017				
Equity instruments:				
- Quoted	616,102	174,858	-	790,960
- Unquoted	92,917	-	-	92,917
Debt instruments:				
- Quoted - fixed rate	-	1,500	-	1,500
- Unquoted investments	-	-	81,654	81,654
Investment in managed funds	7,322	-	-	7,322
	<u>716,341</u>	<u>176,358</u>	<u>81,654</u>	<u>974,353</u>
Within UAE	450,133	176,358	-	626,491
Outside UAE	266,208	-	81,654	347,862
	<u>716,341</u>	<u>176,358</u>	<u>81,654</u>	<u>974,353</u>
31 December 2016				
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>

The fair value of investments carried at amortised cost at 31 December 2017 is AED 82,657 thousand (2016: AED 128,631 thousand).

Income from Tier 1 Capital Instruments include investment income from Tier 1 Sukuk Instruments. These instruments hold an average coupon interest rate between 5.5% - 8.25%.

During the year the Group has not disposed of investments carried at amortised cost (2016: investments carried at amortised cost of AED 29,245 thousand disposed for strategic reason).

Furthermore, during 2017, the Group made a number of purchases in shares and bonds for strategic and trading purposes in an amount of AED 337,172 thousand (2016: AED 236,458 thousand).

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

6 Loans and advances

	2017 AED'000	2016 AED'000
Commercial loans	2,052,177	1,857,890
Retail finance	498,208	415,440
Gross loans and advances	<u>2,550,385</u>	<u>2,273,330</u>
Less: assessed allowance for impairment		
- Collectively assessed allowances	(42,047)	(36,067)
- Individually assessed allowances	(172,537)	(183,734)
Net loans and advances	<u>2,335,801</u>	<u>2,053,529</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
2017			
At 1 January	183,734	36,067	219,801
Impairment charges for the year	42,756	5,980	48,736
Reversal of no longer required impairment charges	(5,300)	-	(5,300)
Amounts written off	(48,653)	-	(48,653)
Balance at 31 December	<u>172,537</u>	<u>42,047</u>	<u>214,584</u>
2016			
At 1 January	191,176	34,771	225,947
Impairment charges for the year	93,899	1,296	95,195
Amounts written off	(101,341)	-	(101,341)
Balance at 31 December	<u>183,734</u>	<u>36,067</u>	<u>219,801</u>

Reconciliation of net impairment charges on loans and advances

	2017 AED'000	2016 AED'000
Impairment charges for the year	48,736	95,195
Reversal of no longer required impairment charges	(5,300)	-
Recovery from previously written off loans	(9,500)	-
	<u>33,936</u>	<u>95,195</u>

- Loans and advances include margin loans amount to AED 130 million issued by Finance House securities, these margin loans are fully secured by quoted shared traded in UAE.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

7 Islamic financing and investing assets

	2017 AED'000	2016 AED'000
Commodity Murabaha	134,942	134,762
Covered card and drawings	62,894	56,959
Purchase and lease back	5,346	8,062
Ijarah	18,211	15,458
Others	2,921	3,196
Gross islamic financing and investing assets	<u>224,314</u>	<u>218,437</u>
Less: assessed allowance for impairment		
- Collectively assessed allowances	(3,629)	(3,523)
- Individually assessed allowances	(47,315)	(34,898)
Net Islamic financing and investing assets	<u>173,370</u>	<u>180,016</u>

The movement in the allowance during the year is as follows:

	2017 AED'000	2016 AED'000
At 1 January	38,421	11,846
Impairment charges for the year	12,523	26,575
At 31 December	<u>50,944</u>	<u>38,421</u>

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

	2017 AED'000	2016 AED'000
Gross Ijara and purchase and lease-back		
Less than one year	7,156	7,350
Between one and three years	11,878	11,712
Between three and five years	6,796	5,877
More than five years	2,157	3,382
	<u>27,987</u>	<u>28,321</u>
Less: deferred income	(4,430)	(4,801)
Net Ijara and purchase and lease-back	<u>23,557</u>	<u>23,520</u>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

7 Islamic financing and investing assets (continued)

Present value of minimum Ijara and purchase and leaseback payments

	2017 AED'000	2016 AED'000
Less than one year	5,690	5,774
Between one and three years	9,860	9,625
Between three and five years	5,978	4,994
More than five years	2,029	3,127
	<u>23,557</u>	<u>23,520</u>

8 Investment in an associate

The Group has the following investment in an associate

	<u>Country of incorporation</u>	<u>Percentage of holding</u>		<u>Principal activity</u>
		2017	2016	
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:

	2017 AED'000	2016 AED'000
At 1 January	50,477	51,687
Share of results for the year	1,243	(1,210)
At 31 December	<u>51,720</u>	<u>50,477</u>

Summarised financial information of the associate is set out below:

	2017 AED'000	2016 AED'000
Associate's statement of financial position		
Assets	208,047	212,256
Liabilities	(52,888)	(60,823)
Net assets	<u>155,159</u>	<u>151,433</u>
Group's share of net assets	51,720	50,477
Carrying amount of investment in associates	<u>51,720</u>	<u>50,477</u>
Associate's revenue and loss:		
Revenue	33,281	34,406
Profit (loss) for the year	3,729	(3,630)
Group's share of results for the year	<u>1,243</u>	<u>(1,210)</u>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

9 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 (Tier 1 Sukuk). Issuance of these Capital Certificates was approved by the Company's Extra Ordinary General Meeting (EGM) in April 2015. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Certificates bear profit at a fixed rate payable semi-annually in arrears. The Capital Certificates are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Company subject to certain conditions. Tier 1 Sukuk amounting to AED 16,450 thousands (2016: 11,300 thousands) are held by subsidiaries of the Group and, accordingly, eliminated in the consolidated statement of financial position. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon interest rate of 7.5% p.a.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

10 Property, fixtures and equipment

	Furniture fixtures and equipment AED'000	Motor vehicles AED'000	Computer hardware AED'000	Capital work in progress AED'000	Total AED'000
Cost:					
At 1 January 2016	32,590	3,305	27,162	91	63,148
Additions during the year	1,318	295	4,828	-	6,441
Disposals	(721)	-	-	(91)	(812)
31 December 2016	33,187	3,600	31,990	-	68,777
Additions during the year	2,905	386	3,300	-	6,591
Disposals	(2,069)	(458)	-	-	(2,527)
At 31 December 2017	34,023	3,528	35,290	-	72,841
Accumulated depreciation					
At 1 January 2016	24,115	969	22,426	-	47,510
Charge for the year	3,629	500	3,180	-	7,309
Release on disposals	(718)	-	-	-	(718)
At 31 December 2016	27,026	1,469	25,606	-	54,101
Charge for the year	3,600	507	3,063	-	7,170
Release on disposal	(1,901)	(419)	-	-	(2,320)
At 31 December 2017	28,725	1,557	28,669	-	58,951
Net book value:					
At 31 December 2017	5,298	1,971	6,621	-	13,890
At 31 December 2016	6,161	2,131	6,384	-	14,676

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

11 Intangibles

	License AED'000	Goodwill AED'000	Total AED'000
2017			
Carrying value:			
At 1 January	1,045	6,705	7,750
Amortisation charges during the year	(784)	-	(784)
At 31 December	<u>261</u>	<u>6,705</u>	<u>6,966</u>
2016			
Carrying value:			
At 1 January	1,828	6,705	8,533
Amortisation charges during the year	(783)	-	(783)
At 31 December	<u>1,045</u>	<u>6,705</u>	<u>7,750</u>

License

License 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 test 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 2017 (continued)

12 Interest receivable and other assets

	2017 AED'000	2016 AED'000
Accounts receivable	44,400	20,960
Less impairment (i)	<u>(6,194)</u>	<u>(6,194)</u>
	38,206	14,766
Insurance receivables (ii)	55,609	44,119
Interest receivable and profit receivable	33,167	26,575
Prepayments	27,871	20,921
Re-insurance contract assets	11,727	16,728
Advance for investments	4,302	302
Amounts due from customers under construction contracts	-	2,028
Other assets (iii)	<u>37,318</u>	<u>18,695</u>
	<u>208,200</u>	<u>144,137</u>

- (i) No impairment charge or impairment reversals recognized at the end of the reporting periods ended 31 December 2017 and 2016 respectively.
- (ii) Insurance receivables do not contain any impaired balances.
- (iii) During the year the Company has entered into a sale and purchase agreement to sell an asset classified as held for sale at a price of AED 21,600 thousand and as a result of this transaction 'other assets' include a receivable from this transaction as at 31 December 2017 of AED 19,500 thousand (2016: AED Nil).

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
2017	38,206	34,421	-	-	-	3,785
2016	14,766	10,758	222	1	-	3,785

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

13 Customers' deposits and margin accounts

	2017 AED'000	2016 AED'000
Call and demand deposits	222,281	225,851
Time deposits	1,870,287	1,780,864
Wakala deposits	60,834	112,913
	<u>2,153,402</u>	<u>2,119,628</u>
Margin accounts (i)	797,142	722,354
	<u>2,950,544</u>	<u>2,841,982</u>
Analysis of customers' deposits by sector is as follows:		
Government	720,414	528,485
Corporate	2,230,130	2,313,497
	<u>2,950,544</u>	<u>2,841,982</u>

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

Customers' deposits and margin accounts carry interest/profit rates ranging from Nil to 3.5% p.a (2016: Nil to 3.5% p.a)

14 Short term borrowings and medium term loans

Short term borrowings

	2017 AED'000	2016 AED'000
At 1 January	192,500	340,000
Proceeds received	123,910	12,500
Repayments	(50,000)	(160,000)
At 31 December	<u>266,410</u>	<u>192,500</u>

These short-term borrowings carry variable interest rates ranging from 3.37% p.a to 5.31% p.a (2016:3.13 % p.a to 5.02% p.a).

Medium term loans

	2017 AED'000	2016 AED'000
At 1 January	87,500	137,500
Proceeds received	100,000	-
Repayments	(66,666)	(50,000)
At 31 December	<u>120,834</u>	<u>87,500</u>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

14 Short term borrowings and medium term loans (continued)

Medium term loan	Year in which medium term loan was obtained	Year in which medium term loan will mature	Facility amount approved and obtained AED '000	Repayment schedule	Interest rate
Medium term loan 1	4 February 2015	2018	150,000	11 equal instalments of AED 12,500 thousand plus interest and one final instalment (12 th) covering the residual utilisation amount plus interest.	3 months EIBOR + 1.75%
Medium term loan 2	24 May 2017	2020	100,000	11 equal instalments of AED 8,333 thousand plus interest and one final instalment (12 th) covering the residual utilisation amount plus interest.	3 months EIBOR + 2.1%

No financial covenants attached to short-term borrowings or medium term loans.

15 Interest payable and other liabilities

	2017 AED'000	2016 AED'000
Unearned premiums	125,342	91,712
Trade payables	38,529	38,988
Interest payable and profit payable	32,532	27,959
Accrued expenses	25,903	25,007
Gross claims outstanding	19,118	20,568
Unclaimed checks and dividends	13,748	11,793
Other liabilities	31,225	31,449
	<u>286,397</u>	<u>247,476</u>

16 Share capital

	2017 AED'000	2016 AED'000
Authorised, issued and fully paid		
310.1 million shares (2016: 310.1 million shares) of AED 1 each (2016: AED 1 each)	<u>310,050</u>	<u>310,050</u>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

17 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 2017 was AED 1,750 thousand (2016: AED 1,750 thousand).

18 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. During the year the Group has transferred AED 3,433 thousand to the reserve (2016: 4,030 thousand). The statutory reserve is not available for distribution.

19 Dividends

The Company's General Assembly in their annual meeting held on 09 March 2017 approved a cash dividends of AED 6 fils per share (2016: 10 fils per share) amounting to AED 18,170 thousand (2016: 30,945 thousand) in total. The dividends were approved by the U.A.E Central Bank and paid during the year.

20 Treasury shares

Treasury shares represent the cost of 9,400 thousand shares of the Company held by the Company and a subsidiary as at 31 December 2017 (2016: 4,452 thousand shares).

	2017		2016	
	Number of shares '000	AED'000	Number of Shares '000	AED'000
Share held by Finance House PJSC	7,212	13,842	2,264	5,027
Share held by Insurance House PJSC	2,188	7,560	2,188	7,560
	<u>9,400</u>	<u>21,402</u>	<u>4,452</u>	<u>12,587</u>

During 2014, the Company has obtained the necessary regulatory approvals to undertake a share-buy program whereby the Company buys and sells its own shares in the normal course of its equity trading and marketing activities. These shares are treated as a deduction from shareholders' equity. Gain and loss on sales or redemption of own shares are credited or charged to reserves. During 2017, a total of 4,948 thousand (2016: 1,662 thousand) shares were purchased back from the market at an average price of AED 1.78 (2016: AED 1.79) per share amounting to AED 8,791 thousand (2016: AED 2,837 thousand).

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

21 Commitments and contingent liabilities

The Group has contractual amounts in respect of letters of credit and letters of guarantees that commits to extend credit to customers. These agreements have fixed limits and are generally for a certain period of time.

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

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

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

	2017 AED'000	2016 AED'000
Letters of credit	218,437	161,195
Letters of guarantee	1,509,750	1,438,541
Capital commitments	4,200	24
Irrevocable commitments to extend credit	218,074	370,121
	<u>1,950,461</u>	<u>1,969,881</u>

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

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

	2017 AED'000	2016 AED'000
Loans and advances	210,579	238,916
Due from banks	8,617	8,467
Income from Islamic financing and investing assets	18,787	24,525
Others	6,916	10,256
Interest income and income from Islamic financing and investing assets	<u>244,899</u>	<u>282,164</u>
Customers' deposits	(55,723)	(48,726)
Profit distributable to depositors	(2,839)	(2,975)
Due to banks and other financial institutions	(15,472)	(10,696)
Interest expense and profit distributable to depositors	<u>(74,034)</u>	<u>(62,397)</u>
Net interest income and income from Islamic financing and investing assets	<u>170,865</u>	<u>219,767</u>

No interest or profit income is recognised on impaired loans and advances or on impaired Islamic financing and investing assets.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

23 Net fee and commission income

	2017 AED'000	2016 AED'000
Fee and commission income from		
Credit cards	30,222	28,039
Corporate finance fees	15,576	14,092
Letters of credit and letters of guarantees	12,399	12,118
Other commission income	10,736	6,249
	<u>68,933</u>	<u>60,498</u>
Fee expense on		
Credit cards	(15,829)	(8,718)
Other fee expense	(21,453)	(12,478)
Net fee and commission income	<u>47,480</u>	<u>48,020</u>

24 Net insurance income

	2017 AED'000	2016 AED'000
Net insurance premiums earned		
Gross premiums written	211,088	152,941
Change in unearned premium provision	(16,203)	(22,187)
Premium income earned	<u>194,885</u>	<u>130,754</u>
Re-insurance premiums ceded	(52,954)	(37,886)
Change in re-insurance portion of unearned premium provision	7,568	5,174
Re-insurance premium ceded	<u>(45,386)</u>	<u>(32,712)</u>
	<u>149,499</u>	<u>98,042</u>
Net insurance claims incurred		
Claims paid	(112,669)	(102,505)
Outstanding claims expenses	(13,267)	(10,723)
Movements in reserves	(29,674)	(4,281)
Claims recovered from re-insurers	35,608	29,956
	<u>(120,002)</u>	<u>(87,553)</u>
Net insurance commission		
Insurance commission income	7,760	4,441
Insurance commission expense	(24,576)	(7,267)
	<u>(16,816)</u>	<u>(2,826)</u>
Net insurance income	<u>12,681</u>	<u>7,663</u>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

25 Net income from investments

	2017 AED'000	2016 AED'000
(Loss)/gain on disposal of investments carried at fair value through profit or loss	(5,925)	5,441
Change in fair value of investments carried at fair value through profit or loss	(22,735)	16,086
Dividends from investments carried at fair value through profit or loss	11,948	8,479
Net (loss)/income from investments carried at fair value through profit or loss	(16,712)	30,006
Dividend income from investments carried at fair value through other comprehensive income	15,553	9,488
Profit on disposal of investments carried at amortised cost	-	713
Net (loss)/income from investments	(1,159)	40,207

26 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 2017, 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:

	2017 AED'000	2016 AED'000
Profit for the year attributable to equity holders of the parent (AED '000)	34,330	40,296
Less: Tier 1 Sukuk paid	(22,500)	(22,478)
Less: Proposed directors remuneration	(3,090)	(1,976)
	<u>8,740</u>	<u>15,842</u>
Number of ordinary shares in issue ('000)	310,050	310,050
Less: Treasury shares ('000)	(9,400)	(4,452)
Less: Employees' share-based payment scheme ('000)	(1,750)	(1,750)
	<u>298,900</u>	<u>303,848</u>
Earnings per share (AED)	0.03	0.05

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

27 Related party balances and transactions

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:

	2017 AED'000	2016 AED'000
Loans and advances		
To key management staff	775	811
To members of Board of Directors	9,277	8,732
To others	-	4,035
Customers' deposits		
From others	11,084	13,704

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

	For the year ended 31 December	
	2017 AED'000	2016 AED'000
Interest income		
From key management	16	23
From Board of Directors	312	751
Interest expense		
To others	80	95
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	21,941	24,283

Balances with related parties include loans granted to Directors and their related parties in the normal course of business amounting to AED 9,277 thousand as at 31 December 2017 (2016: AED 8,732 thousand). These loans are repayable over 12 months and carry fixed interest rates of 6.5% p.a (2016: fixed interest rates of 6.5% p.a).

28 Assets classified as held for sale

	2017 AED'000	2016 AED'000
At 1 January	125,215	125,215
Disposed assets	(42,215)	-
Reclassified to investment properties (Note 29)	(83,000)	-
	-	125,215

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

28 Assets classified as held for sale (continued)

During the year, the Group has disposed of an investment classified as assets held for sale with assets and liabilities of AED 42,215 thousand and AED 29,902 thousand respectively, at a selling price of AED 21,600 thousand. The gain recognised in the consolidated income statement under 'other operating income' is AED 9,287 thousand.

During the year the Group has decided to reclassify the remaining balance of AED 83,000 thousand to investment properties since the criteria to remain classified under assets classified as held for sale have not been met as at the reporting date (Note 29).

29 Investment properties

	2017 AED'000	2016 AED'000
At 1 January	-	-
Acquisition of investment properties in respect of settlement of a loan	5,070	-
Reclassified from assets classified as held for sale (Note 28)	83,000	-
Change in fair value	(6,000)	-
	<u>82,070</u>	<u>-</u>

Investment properties comprise: 3 apartments located in Dubai Business Bay with a fair market value of AED 5,070 thousand which were held as a collateral in respect of loan whereas the Group has acquired these apartments in respect of settlement of loan; and a commercial building in Al Nahyan area in Abu Dhabi with a fair market value of AED 77,000 thousand.

Commercial Building Al Nahyan Abu Dhabi

An independent valuer for the valuation of this investment property adopts the income method in valuing the investment properties. This method calculates the value of the property by taking the estimated net income of property and capitalising it 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	<u>Income method</u>	Estimated annual market rent income	AED 7.6 – 8.7 million
		Yield	8.5% - 9.5%
		Occupancy level	95% - 100%

The rental income recognised is AED 6,344 thousand (2016: AED 6,885 thousand) and is recognised in the consolidated income statement under 'other operating income'.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

30 Salaries and employees related expenses

	2017 AED'000	2016 AED'000
Basic salary	40,637	37,918
Housing allowance	16,521	15,765
Cost of living allowance	30,807	27,059
Gratuity	2,790	2,643
Others	34,413	39,010
	<u>125,168</u>	<u>122,395</u>

31 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 2017 (continued)

31 Segmental information (continued)

31.1 Products and services from which reportable segments derive their revenues

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

	Year ended 31 December 2017							
	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	202,122	6,467	21,515	-	12,043	2,752	-	244,899
Interest expense and profit distributable to depositors	(55,723)	(10,392)	(2,839)	-	(5,080)	-	-	(74,034)
Net income from perpetual instruments	-	25,773	-	-	-	-	-	25,773
Net fee and commission income	38,123	-	3,633	-	5,724	-	-	47,480
Net insurance income	-	-	-	-	-	12,681	-	12,681
Loss on fair valuation of investment property	-	(6,000)	-	-	-	-	-	(6,000)
Gain in disposal of subsidiary	-	15,001	-	-	-	-	-	15,001
Reversal of impairment charges on loans and advance	5,300	-	-	-	-	-	-	5,300
Net investment income	-	(1,159)	-	-	-	-	-	(1,159)
Share of results of an associate	-	1,243	-	-	-	-	-	1,243
Other operating income	8,065	7,494	-	-	-	2,493	-	18,052
Total operating income	197,887	38,427	22,309	-	12,687	17,926	-	289,236
Depreciation of property, fixtures and equipment	-	(178)	(776)	-	(571)	(950)	(4,695)	(7,170)
Other expenses and charges	(75,784)	(10,364)	(14,930)	-	(8,181)	(30,668)	(63,897)	(203,824)
Total expenses and other charges	(75,784)	(10,542)	(15,706)	-	(8,752)	(31,618)	(68,592)	(210,994)
Profit for the year before impairment	122,103	27,885	6,603	-	3,935	(13,692)	(68,592)	78,242
Net impairment charges on loans and advances	(48,736)	-	-	-	-	-	-	(48,736)
Net impairment charges on Islamic financing and investing assets	-	-	(12,523)	-	-	-	-	(12,523)
Profit(loss) for the year after impairment	73,367	27,885	(5,920)	-	3,935	(13,692)	(68,592)	16,983
Income from assets classified as held for sale	-	15,631	-	-	-	-	-	15,631
Net profit/(loss) for the year	73,367	43,516	(5,920)	-	3,935	(13,692)	(68,592)	32,614
Segmental assets	2,266,402	1,612,188	227,028	-	205,221	254,000	-	4,564,839
Segmental liabilities	2,225,109	1,005,166	144,252	-	124,608	162,505	-	3,661,640
Additions to non-current assets during the year	-	2	18	-	45	1,299	5,227	6,591

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

31 Segmental information (continued)

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

	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	7,663	-	48,020
Net insurance income	-	-	-	-	-	-	-	7,663
Net income from investment	-	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
Total operating income (loss)	231,278	68,193	24,159	5,457	11,952	13,074	-	354,113
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)
Total expenses and other charges	(47,174)	(10,219)	(16,632)	(4,678)	(8,679)	(31,648)	(82,099)	(201,129)
Profit (loss) for the year before impairment	184,104	57,974	7,527	779	3,273	(18,574)	(82,099)	152,984
Net impairment charges on loans and advances	(95,195)	-	-	-	-	-	-	(95,195)
Net impairment charges on Islamic financing and investing assets	-	-	(26,575)	-	-	-	-	(26,575)
Profit (loss) for the year after impairment	88,909	57,974	(19,048)	779	3,273	(18,574)	(82,099)	31,214
Income from assets classified as held for sale	-	6,885	-	-	-	-	-	6,885
Net profit/(loss) for the year	88,909	64,859	(19,048)	779	3,273	(18,574)	(82,099)	38,099
Segmental assets	1,873,560	1,813,226	281,369	4,368	192,680	217,238	-	4,382,441
Segmental liabilities	1,827,277	1,154,711	192,883	16,334	116,002	121,482	-	3,428,689
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 2017 (continued)

31 Segmental information (continued)

31.1 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.

31.2 Geographical information

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

31.3 Information about major customers

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

32 Risk management

32.1 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 2017 (continued)

32 Risk management (continued)

32.1 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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.1 Introduction (continued)

(a) Risk management structure (continued)

(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.

(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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.1 Introduction (continued)

(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.

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 32.3.

32.2 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 2017.

	Effect on profit and equity AED'000
2017	
+100 increase in basis points	10,100
-100 decrease in basis points	(10,100)
2016	
+100 increase in basis points	10,006
-100 decrease in basis points	(10,006)

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.2 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	Impact on
		net income and equity 2017 AED'000	net income and equity 2016 AED'000
Investments carried at fair value through profit or loss			
Abu Dhabi Securities Market Index	2%	1,791	2,463
Dubai Financial Market Index	2%	1,706	1,582
Fixed income securities	2%	30	50

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.2 Market risk (continued)

(c) 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 2017 AED'000	Impact on equity 2016 AED'000
Investments carried at fair value through other comprehensive income			
Abu Dhabi Securities Market Index	2%	3,519	3,024
Dubai Financial Market Index	2%	803	938
Kuwait Stock Exchange	2%	371	488
Unquoted investments	2%	1,858	2,003

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.

32.3 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 2017 (continued)

32 Risk management (continued)

32.3 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 2017 AED'000	Gross maximum exposure 2016 AED'000
Balances with U.A.E. Central Bank	24,185	19,654
Due from banks	676,847	757,741
Loans and advances	2,335,801	2,053,529
Islamic financing and investing assets	173,370	180,016
Investments carried at fair value through other comprehensive income	376,269	380,682
Investments (debt instruments)	81,654	128,569
Statutory deposit	6,000	6,000
Other assets subject to credit risk	176,027	122,914
	<u>3,850,153</u>	<u>3,649,105</u>
Contingent liabilities	1,728,187	1,599,736
Commitments	222,274	370,145
Total	<u><u>5,800,614</u></u>	<u><u>5,618,986</u></u>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.3 Credit risk (continued)

Credit-related commitments risks (continued)

(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 2017 was AED 693,186 thousand (2016: AED 657,897 thousand) before taking account of collateral or other credit enhancements and AED 372,763 (2016: AED 335,641 thousand) net of such protection, respectively.

	2017 AED'000	2016 AED'000
Geographic region		
U.A.E.	3,515,650	3,252,976
Other Arab countries	80,037	88,059
Europe	187,513	243,754
U.S.A.	-	-
Rest of the world	66,953	64,316
Financial assets subject to credit risk	3,850,153	3,649,105
Industry sector		
Commercial and business	2,061,983	1,846,901
Personal	479,277	411,854
Banks and financial institutions	1,158,955	1,286,646
Others	149,938	103,704
Financial assets subject to credit risk	3,850,153	3,649,105

(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.

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.3 Credit risk (continued)

Credit-related commitments risks (continued)

(c) Collateral and other credit enhancements (continued)

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 17,283 thousand as at 31 December 2017 (2016: AED 16,333 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.

(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 AED'000
	Pass grade AED'000	Sub- standard grade AED'000	AED'000	
2017				
Balances with U.A.E. Central Bank	24,220	-	-	24,220
Due from banks	676,812	-	-	676,812
Loans and advances	2,102,554	54,218	179,029	2,335,801
Islamic financing and investing assets	168,493	-	4,877	173,370
Investments carried at fair value through other comprehensive income	376,269	-	-	376,269
Investment carried at amortised cost	81,654	-	-	81,654
Statutory deposit	6,000	-	-	6,000
Other assets	176,027	-	-	176,027
Total	3,612,029	54,218	183,906	3,850,153

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.3 Credit risk (continued)

Credit-related commitments risks (continued)

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

	Neither past due nor impaired		Past due or Individually impaired	Total AED'000
	Pass grade AED'000	Sub- standard grade AED'000	AED'000	
2016				
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
Total	3,481,809	10,305	156,991	3,649,105

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

Aging analysis of past due but not impaired and 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
2017					
Past due but not impaired	31,365	12,896	19,149	16,378	79,788
Impaired	-	-	-	104,118	104,118
Total past due or impaired	31,365	12,896	19,149	120,496	183,906
2016					
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

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.4 Liquidity risk and funding management

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

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's assets and liabilities at 31 December 2017 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
ASSETS					
Cash and balances with U.A.E. Central Bank	35,621	-	6,000	-	41,621
Due from banks and financial institutions	675,848	1,000	-	-	676,848
Loans and advances	710,254	657,841	588,046	379,660	2,335,801
Islamic financing and investing assets	66,672	48,454	56,215	2,029	173,370
Investments, including associate	289,803	152,296	202,105	381,869	1,026,073
Other assets	35,357	135,662	5,008	-	176,027
Financial assets	1,813,555	995,253	857,374	763,558	4,429,740
Non-financial assets	32,173	-	95,960	6,966	135,099
Total assets	1,845,728	995,253	953,334	770,524	4,564,839
LIABILITIES					
Due to banks	-	23,831	-	-	23,831
Customers' deposits and margin accounts	1,088,259	1,020,923	841,362	-	2,950,544
Short term borrowings and medium term loans	77,244	260,000	50,000	-	387,244
Other liabilities	82,374	52,778	-	-	135,152
Financial liabilities	1,247,877	1,357,532	891,362	-	3,496,771
Non-financial liabilities	25,903	125,342	-	13,624	164,869
Total liabilities	1,273,780	1,482,874	891,362	13,624	3,661,640
2017					
Contingent liabilities	1,341,523	314,189	72,227	248	1,728,187
Commitments	222,274	-	-	-	222,274
Total	1,563,797	314,189	72,227	248	1,950,461

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.4 Liquidity risk and funding management (continued)

The maturity profile of the Group's assets and liabilities at 31 December 2016 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
ASSETS					
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	4,243,479
Non-financial assets	21,223	125,215	14,676	7,750	168,864
Total assets	1,784,028	916,958	986,969	724,388	4,412,343
LIABILITIES					
Due to banks	-	47,175	-	-	47,175
Customers' deposits					
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
Total liabilities	744,524	1,747,644	954,367	12,056	3,458,591
2016					
Contingent liabilities	1,196,036	271,019	132,450	231	1,599,736
Commitments	370,145	-	-	-	370,145
Total	1,566,181	271,019	132,450	231	1,969,881

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

32 Risk management (continued)

32.5 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.

32.6 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.

33 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.

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Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

33 Fair value measurement (continued)

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 2017 (continued)

33 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 2017:

	Date of Valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value					
Investment properties	07 December 2017	-	-	82,070	82,070
At fair value through profit or loss					
Quoted equities	31 December 2017	174,858	-	-	174,858
Quoted debt instruments	31 December 2017	1,500	-	-	1,500
		<u>176,358</u>	<u>-</u>	<u>-</u>	<u>176,358</u>
At fair value through other comprehensive income					
Quoted equities	31 December 2017	616,102	-	-	616,102
Unquoted equities	31 December 2017	-	9,822	83,095	92,917
Investment in managed funds	31 December 2017	-	7,322	-	7,322
		<u>616,102</u>	<u>17,144</u>	<u>83,095</u>	<u>716,341</u>
Assets for which fair value is disclosed					
Investment carried at amortised cost		-	82,657	-	82,657

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 does not 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 2017 (continued)

33 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 2016:

	Date of Valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets measured at fair value					
Non-current assets classified as held for sale	21 December 2016	-	-	125,215	125,215
At fair value through profit or loss					
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>
At fair value through other comprehensive income					
Quoted equities	31 December 2016	603,196	-	-	603,196
Unquoted equities		-	12,846	87,305	100,151
Investment in managed funds	31 December 2016	-	9,078	-	9,078
	31 December 2016	<u>603,196</u>	<u>21,924</u>	<u>87,305</u>	<u>712,425</u>
Assets for which fair value is disclosed					
Investment carried at amortised cost	31 December 2016	-	128,631	-	128,631

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 2017 (continued)

33 Fair value measurement (continued)

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

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

Transfers between categories

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

34 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:

	2017 AED'000	2016 AED'000
Total capital base	<u>941,909</u>	<u>985,592</u>
Risk weighted assets:		
Statement of financial position items	3,704,632	3,506,765
Off statement financial position exposures	<u>492,477</u>	<u>497,335</u>
Total risk weighted assets	<u>4,197,109</u>	<u>4,004,100</u>
Total assets ratio (%)	<u>22.4%</u>	<u>24.6%</u>

Finance House P.J.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)

35 Seasonality of results

No income of a seasonal nature was recorded in the consolidated income statement for the year ended 31 December 2017 and 2016.

36 Legal proceedings

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

37 Comparative figures

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