

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

**Condensed consolidated interim  
financial statements  
for the six months ended 30 June 2018**

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## Review report on the condensed consolidated interim financial information to the Board of Directors of Finance House P.J.S.C.

### Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Finance House P.J.S.C ("the Company") and its subsidiaries (together referred to as "the Group") as at 30 June 2018 and the related condensed consolidated interim statements of income and comprehensive income for the six and three month periods then ended and condensed consolidated interim statements of changes in equity and cash flows for the six month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### Scope of review

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

### Conclusion

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

PricewaterhouseCoopers  
31... J.H.L.Y.... 2018

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

PricewaterhouseCoopers, (Abu Dhabi Branch), License no. 1001301  
Al Khatem Tower, Abu Dhabi Global Market, 25<sup>th</sup> Floor, PO Box 45263, Abu Dhabi - United Arab Emirates  
T: +971 (0)2 694 6800, F: +971 (0)2 645 6610, [www.pwc.com/me](http://www.pwc.com/me)

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

### Condensed consolidated interim statement of financial position

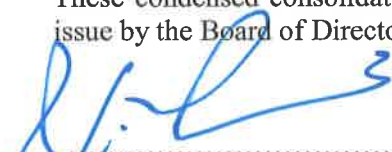
		At 30 June 2018 AED'000 (Unaudited)	At 31 December 2017 AED'000 (Audited)
<b>ASSETS</b>			
Cash balances	8	19,002	17,437
Due from banks	8	662,148	701,032
Investments carried at fair value through other comprehensive income	9	607,834	716,341
Investments carried at fair value through profit or loss	9	192,281	176,358
Investments carried at amortised cost	9	54,413	81,654
Loans and advances	10.1	2,374,268	2,335,801
Islamic financing and investing assets	10.2	161,593	173,370
Investment in an associate		51,608	51,720
Property, fixtures and equipment		15,149	13,890
Intangibles		6,705	6,966
Investment properties		82,070	82,070
Interest receivable and other assets		292,717	208,200
<b>Total assets</b>		<b>4,519,788</b>	<b>4,564,839</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers' deposits and margin accounts	11	2,940,698	2,950,544
Due to banks and other financial institutions	8	18,229	23,831
Short term borrowings		147,000	266,410
Medium term loan		229,168	120,834
Interest payable and other liabilities		365,248	286,397
Provision for employees' end of service benefits		14,167	13,624
<b>Total liabilities</b>		<b>3,714,510</b>	<b>3,661,640</b>

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

### Condensed consolidated interim statement of financial position (continued)

		At 30 June 2018 AED'000 (Unaudited)	At 31 December 2017 AED'000 (Audited)
<b>EQUITY</b>			
Share capital	12	310,050	310,050
Treasury shares	13	(21,402)	(21,402)
Employees' share-based payment scheme	14	(1,750)	(1,750)
Statutory reserve		146,185	146,185
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		(24,135)	(6,305)
Retained earnings		39,895	117,349
Tier 1 Sukuk		282,500	283,550
Proposed directors' remuneration		-	3,090
		<u>731,343</u>	<u>830,767</u>
Non-controlling interests		73,935	72,432
<b>Total equity</b>		<u>805,278</u>	<u>903,199</u>
<b>Total liabilities and equity</b>		<u>4,519,788</u>	<u>4,564,839</u>
<b>Commitments and contingent liabilities</b>	15	<u>1,607,222</u>	<u>1,950,461</u>

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on 31 July 2018 and were signed on its behalf by:

  
.....  
Mr. Mohammed Alqubaisi  
Chairman

  
.....  
Mr. Hamid Taylor  
General Manager

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

### Condensed consolidated interim income statement (Unaudited)

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2018 AED'000	2017 AED'000	2018 AED' 000	2017 AED '000
Interest income and income from Islamic financing and investing assets	5	66,771	61,440	131,159	118,437
Interest expense and profit distributable to depositors	5	(19,972)	(18,060)	(38,790)	(35,486)
<b>Net interest income and income from Islamic financing and investing assets</b>	5	<b>46,799</b>	<b>43,380</b>	<b>92,369</b>	<b>82,951</b>
Net income from perpetual instruments		4,167	6,575	9,085	12,892
<b>Net interest income, income from Islamic financing and investing assets and net income from perpetual instruments</b>		<b>50,966</b>	<b>49,955</b>	<b>101,454</b>	<b>95,843</b>
Fee and commission income		17,065	13,417	34,342	32,294
Fee and commission expenses		(5,910)	(3,350)	(9,742)	(7,739)
<b>Net fee and commission income</b>		<b>11,155</b>	<b>10,067</b>	<b>24,600</b>	<b>24,555</b>
Net (loss)/income from investments	6	(3,520)	(4,266)	10,659	1,670
Credit impairment loss on loans and advances	10.1	(15,933)	(11,496)	(38,411)	(22,496)
Credit impairment loss on Islamic financing and investing assets	10.2	(2,477)	(3,238)	(4,125)	(6,375)
Net insurance income		17,441	4,988	30,242	11,762
Other operating income		2,289	9,769	8,691	31,504
<b>Net operating income</b>		<b>59,921</b>	<b>55,779</b>	<b>133,110</b>	<b>136,463</b>
Salaries and employee related expenses		(37,502)	(27,323)	(73,213)	(60,539)
Depreciation of property, fixtures and equipment		(2,014)	(1,749)	(4,017)	(3,534)
Amortisation of intangibles		(65)	(196)	(261)	(392)
General and administrative expenses		(20,469)	(20,943)	(35,152)	(43,684)
<b>Operating (loss)/profit</b>		<b>(129)</b>	<b>5,568</b>	<b>20,467</b>	<b>28,314</b>
Share of profit/(loss) of associates		(442)	(55)	(112)	2,271
<b>(Loss)/profit for the period</b>		<b>(571)</b>	<b>5,513</b>	<b>20,355</b>	<b>30,585</b>
<b>Attributable to:</b>					
Equity holders of the Parent		(2,142)	7,033	16,643	32,240
Non-controlling interests		1,571	(1,520)	3,712	(1,655)
		<b>(571)</b>	<b>5,513</b>	<b>20,355</b>	<b>30,585</b>
<b>Basic earnings per share attributable to ordinary shares (AED)</b>	7	<b>0.00</b>	<b>0.00</b>	<b>0.02</b>	<b>0.07</b>

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

### Condensed consolidated interim statement of comprehensive income (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
(Loss)/profit for the period	<u>(571)</u>	<u>5,513</u>	<u>20,355</u>	<u>30,585</u>
<b>Other comprehensive loss:</b>				
<b>Items that will not be reclassified to income statement:</b>				
Change in fair value of financial assets carried at fair value through other comprehensive income	<u>(15,609)</u>	<u>(21,273)</u>	<u>(20,093)</u>	<u>(14,845)</u>
Directors' remuneration paid	<u>-</u>	<u>(1,976)</u>	<u>(3,090)</u>	<u>(1,976)</u>
<b>Other comprehensive loss for the period</b>	<u>(15,609)</u>	<u>(23,249)</u>	<u>(23,183)</u>	<u>(16,821)</u>
<b>Total comprehensive (loss)/income for the period</b>	<u>(16,180)</u>	<u>(17,736)</u>	<u>(2,828)</u>	<u>13,764</u>
<b>Attributable to:</b>				
Equity holders of the Parent	<u>(16,990)</u>	<u>(16,461)</u>	<u>(5,622)</u>	<u>15,033</u>
Non-controlling interests	<u>816</u>	<u>(1,275)</u>	<u>2,794</u>	<u>(1,269)</u>
	<u>(16,180)</u>	<u>(17,736)</u>	<u>(2,828)</u>	<u>13,764</u>

# Finance House P.J.S.C.

## Condensed consolidated interim statement of changes in equity (Unaudited)

	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		Total AED'000
									parent company AED'000	Non controlling interest AED'000	
<b>Balance at 1 January 2017</b>	310,050	(12,587)	(1,750)	142,752	17,493	133,227	2,076	288,700	879,961	73,791	953,752
Profit for the period	-	-	-	-	-	32,240	-	-	32,240	(1,655)	30,585
Change in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(15,231)	-	-	-	(15,231)	386	(14,845)
Total comprehensive income for the period	-	-	-	-	(15,231)	32,240	-	-	17,009	(1,269)	15,740
Profit on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	1,322	(1,322)	-	-	-	-	-
Purchase of Treasury shares	-	(8,815)	-	-	-	-	-	-	(8,815)	-	(8,815)
Cash dividend paid	-	-	-	-	-	(18,170)	-	-	(18,170)	-	(18,170)
Directors' remuneration paid	-	-	-	-	-	-	(2,076)	-	(2,076)	-	(2,076)
Movement in Tier 1 Sukuk	-	-	-	-	-	-	-	(1,150)	(1,150)	-	(1,150)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(11,250)	-	-	(11,250)	-	(11,250)
<b>Balance at 30 June 2017</b>	<b>310,050</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>142,752</b>	<b>3,584</b>	<b>134,725</b>	<b>-</b>	<b>287,550</b>	<b>855,509</b>	<b>72,522</b>	<b>928,031</b>
<b>Balance at 1 January 2018</b>	<b>310,050</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>146,185</b>	<b>(6,305)</b>	<b>117,349</b>	<b>3,090</b>	<b>283,550</b>	<b>830,767</b>	<b>72,432</b>	<b>903,199</b>
Changes on initial application of IFRS9	-	-	-	-	-	(66,361)	-	-	(66,361)	-	(66,361)
<b>Restated balance at 1 January 2018</b>	<b>310,050</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>146,185</b>	<b>(6,305)</b>	<b>50,988</b>	<b>3,090</b>	<b>283,550</b>	<b>764,406</b>	<b>72,432</b>	<b>836,838</b>
Profit for the period	-	-	-	-	-	16,643	-	-	16,643	3,712	20,355
Change in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(19,175)	-	-	-	(19,175)	(918)	(20,093)
Total comprehensive (loss)/profit for the period	-	-	-	-	(19,175)	16,643	-	-	(2,532)	2,794	262
Profit on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	1,345	(1,345)	-	-	-	97	97
Cash dividend paid	-	-	-	-	-	(15,141)	-	-	(15,141)	-	(15,141)
Directors' remuneration paid	-	-	-	-	-	-	(3,090)	-	(3,090)	-	(3,090)
Movement in Tier 1 Sukuk	-	-	-	-	-	-	-	(1,050)	(1,050)	-	(1,050)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	(1,388)	(1,388)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(11,250)	-	-	(11,250)	-	(11,250)
<b>Balance at 30 June 2018</b>	<b>310,050</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>146,185</b>	<b>(24,135)</b>	<b>39,895</b>	<b>-</b>	<b>282,500</b>	<b>731,343</b>	<b>73,935</b>	<b>805,278</b>

The notes on pages 8 to 44 form an integral part of these financial statements.



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

### Condensed consolidated interim statement of cash flows (Unaudited)

	Notes	Six months ended 30 June	
		2018 AED'000	2017 AED'000
<b>Operating activities</b>			
Profit for the period		20,355	30,585
<b>Non-cash adjustments:</b>			
Depreciation of property, fixtures and equipment		4,017	3,534
Amortisation of intangible assets		261	392
Share of results of associates		112	(2,271)
Dividend income from investments		(26,838)	(25,273)
(Profit)/loss on disposal of investments carried at fair value through profit or loss		(2,067)	2,641
Unrealised loss on investments carried at fair value through profit or loss		18,247	20,962
Credit impairment loss of loans and advances	10.1	38,411	22,496
Credit impairment loss of islamic financing and investing assets	10.2	4,125	6,375
Directors' remuneration paid		(3,090)	(2,076)
Net movement in provision for employees' end of service benefits		543	749
		<u>54,076</u>	<u>58,114</u>
<b>Change in working capital:</b>			
Islamic financing and investing assets		3,168	1,124
Loans and advances		(138,756)	(445,409)
Interest receivable and other assets		(84,517)	(36,710)
Assets held for sale		-	(4,829)
Customers' deposits and margin accounts		(9,846)	(140,794)
Liabilities held for sale		-	2,978
Interest payable and other liabilities		78,851	73,411
		<u>78,851</u>	<u>73,411</u>
<b>Net cash outflow from operating activities</b>		<u>(97,024)</u>	<u>(492,115)</u>
<b>Cash flows from investing activities</b>			
Purchase of investments carried at fair value through other comprehensive income		(69,069)	(69,365)
Proceeds from sale of investments carried at fair value through other comprehensive income		157,581	3,851
Purchase of investments carried at fair value through profit or loss		(118,464)	(175,597)
Proceeds from sale of investments carried at fair value through profit or loss		86,361	123,019
Proceeds from sale of investments carried at amortised cost		27,241	50,205
Purchase of property, fixtures and equipment		(5,276)	(2,448)
Dividend income received		26,838	25,273
<b>Net cash inflow/(outflow) from investing activities</b>		<u>105,212</u>	<u>(45,062)</u>
<b>Cash flow from financing activities</b>			
Short term borrowings		(119,410)	111,910
Medium term loan		108,334	75,000
Movement in Tier 1 SUKUK held by subsidiaries		(1,050)	(1,150)
Tier 1 SUKUK coupon paid		(11,250)	(11,250)
Cash dividend paid		(15,141)	(18,170)
Change in non-controlling interest		(1,388)	-
Purchase of treasury shares		-	(8,815)
<b>Net cash (outflow)/inflow financing activities</b>		<u>(39,905)</u>	<u>147,525</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(31,717)</u>	<u>(389,652)</u>
Cash and cash equivalents at 1 January		688,638	737,608
<b>Cash and cash equivalents at 30 June</b>	8	<u>656,921</u>	<u>347,956</u>



The notes on pages 8 to 44 form an integral part of these financial statements.

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

### **Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018**

#### **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 June 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 , Al Ain and Mussafah branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

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

#### **2 Basis of preparation**

These condensed consolidated interim financial information of the Group are prepared under the historical cost basis except for certain financial instruments and investment properties which are measured at fair value.

These condensed consolidated interim financial information are prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* (“IAS 34”), issued by the International Accounting Standard Board (IASB) and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2017, other than the impact of the implementation of IFRS 9 which is disclosed in note 2.4.

These condensed consolidated interim financial information do not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2017. In addition, results for the period from 1 January 2018 to 30 June 2018 and 1 April 2018 to 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

As required by the Securities and Commodities Authority of the U.A.E. (“SCA”) Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, Islamic financing and investing assets and investment properties have been disclosed in the condensed consolidated interim financial statements.

This condensed consolidated interim financial statements were approved on behalf of the Board of Directors on 31 July 2018.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.1 Basis of consolidation

The condensed consolidated interim financial statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”).

##### Subsidiaries

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

Name of subsidiary	Country of incorporation	Ownership interest %		Principal activity
		30 June 2018	31 December 2017	
Islamic Finance House P.J.S.C.	U.A.E.	100	100	Islamic financing services
Insurance House P.S.C.	U.A.E.	45.15	44.83	Insurance
Finance House Securities Co L.L.C.	U.A.E.	70	70	Brokerage
CAPM Investment P.J.S	U.A.E.	100	100	Investment and asset management

##### Transactions eliminated on consolidation

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

#### 2.2 Application of new and revised International Financial Reporting Standards (“IFRS”)

##### 2.2.1 New and revised IFRS applied with no material effect on the condensed consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements. The application of these revised IFRSs, except where stated, has not had any material impact on the amounts reported for the current and prior years.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.2 Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

##### 2.2.1 New and revised IFRS applied with no material effect on the condensed consolidated financial statements (continued)

- **IFRS 15, ‘Revenue from contracts with customers’** The standard replaces IAS 11, ‘Construction contracts’, IAS 18, ‘Revenue’ and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.
- **Amendment to IFRS 15, ‘Revenue from contracts with customers’** - The amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **Amendment to IAS 40, ‘Investment Property’** - The amendment clarified that for transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition of an investment property. The change must be supported by evidence. It was confirmed that a change in intention, in isolation, is not enough to support a transfer to or from the investment property.
- **Amendment to IFRS 2, ‘Share-Based Payment’** - The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash – settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated if it was wholly owned equity – settled, 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.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.2 Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

##### 2.2.1 New and revised IFRS applied with no material effect on the condensed consolidated financial statements (continued)

- **Amendments to IFRS 4, ‘Insurance contracts’** - The amendment address the concerns about the effective dates of IFRS 9, ‘Financial Instruments’ and the forthcoming new insurance contracts standard. The amendment introduces two approaches for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirement, and the ‘overlay approach’. Under overlay approach an insurer is permitted to reclassify in respect of certain financial assets – from profit or loss to other comprehensive income the difference between the amount that is reported in profit or loss account under IFRS 9 and the amount that would have been reported in profit or loss under IAS 39, The Group has elected to apply neither temporary exemption nor the overlay approach.
- **IFRIC 22, Foreign currency transactions and advance consideration**  
The interpretation considers how to determine the date of transaction when applying the standard on applying the date of transactions, IAS 21. The date of transaction determines the exchange rate to be used on initial recognition to be used on an initial recognition of a related asset, expense or income. The interpretation provides guidance for when a single payment / receipt is made, as well as for situations where multiple payments / receipts are made
- **IFRS 9, ‘Financial instruments’** The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL). The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The impact of the IFRS 9 on the condensed consolidated interim financial statements of the Group have been disclosed in note 4.1.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

#### 2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

##### 2.2.2 New and revised IFRS in issue but not yet effective and not early adopted

The Group has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
<ul style="list-style-type: none"><li><b>IFRS 16, 'Leases'</b> - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.</li></ul> <p>For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. 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
<ul style="list-style-type: none"><li><b>Amendment to IFRS 9, 'Financial instruments'</b> - The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modification in financial liability will result in immediate recognition of a gain or loss.</li></ul>	1 January 2019

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

#### 2 Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

##### 2.2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

###### New and revised IFRS

- **IFRS 17, ‘Insurance contracts’** - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, ‘Insurance Contracts’. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15, ‘Revenue from contracts with customers’ and IFRS 9, ‘Financial instruments’ are also applied.

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (“CSM”) representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

#### 2.3 Significant accounting policies

##### Investment in associates

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

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

**Effective for  
annual periods  
beginning on or  
after  
1 January 2021**

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

### **Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018**

#### **2 Basis of preparation** (continued)

##### **2.3 Significant accounting policies**

###### **Investment in associates** (continued)

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

###### **Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

For financial assets or financial liabilities not at fair value through profit or loss, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and investment in debt instruments measured as FVTOCI, as described in Note 4.1(c), which results in accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- (b) In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.



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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.3 Significant accounting policies (continued)

###### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and advances and investments in debts securities including Sukuks.

Classification and subsequent measurement of debt instruments depend on: the Group's business model for managing the assets; and the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- (i) **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 4.1. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.
- (ii) **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movement in carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Gain/(loss) on investments in debts instruments. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- (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 instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arose, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.3 Significant accounting policies (continued)

###### Debt instruments (continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or it is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

###### Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.3 Significant accounting policies (continued)

###### Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

###### Interest Income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

##### (i) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 4.1 provides more details of how the expected credit loss allowance is measured.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.3 Significant accounting policies (continued)

###### Interest income (continued)

###### (ii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

###### (iii) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.3 Significant accounting policies (continued)

###### Interest income (continued)

###### (iii) Derecognition other than on a modification (continued)

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

###### **Financial liabilities**

###### (i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (eg. Short positions in the trading booking) and other financial liabilities designated as such as initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss presented partially in other comprehensive income ( the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss ;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability ; and
- Financial guarantee contracts and loan commitments.

###### (ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.3 Significant accounting policies (continued)

###### Financial Liabilities (continued)

###### (ii) Derecognition (continued)

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in the covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

###### Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because of 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 others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance. (calculated as described in [note 4.1](#)); and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

###### Loan commitments:

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 4.1). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.3 Significant accounting policies (continued)

###### Loan commitments: (continued)

For loan commitments, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the underdrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

###### Islamic financing and investing assets

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

- (i) Murabaha is stated at amortised cost less any provisions for impairment and deferred income.
- (ii) Ijara's cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value. The Ijara and purchase & leaseback are classified as a finance lease, when the Group undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

##### 2.4 Changes in accounting policies

The Group has adopted the impairment requirements of IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures reflect those disclosures made in the prior period.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 2 Basis of preparation (continued)

##### 2.4 Changes in accounting policies (continued)

The classification and measurements modules of IFRS 9 were early adopted by the group 2011. The adoption of the impairment module of IFRS 9 has resulted in changes in accounting policies for impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

##### (a) Reconciliation of impairment allowance balance from IAS 39 / IAS 37 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model and IAS 37 provision to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	<b>Loan loss allowance under IAS 39</b> AED'000	<b>Remeasure- ments</b> AED'000	<b>Loan loss allowance under IFRS 9</b> AED'000
<b>On Balance sheet</b>			
Loans and advances	214,584	47,555	262,139
Islamic financing and investing assets	50,944	4,077	55,021
	<u>265,528</u>	<u>51,632</u>	<u>317,160</u>
<b>Off Balance sheet</b>			
Provision (Loans commitments, LCs and LGs)	-	14,730	14,730
Total	<u>265,528</u>	<u>66,362</u>	<u>331,890</u>

Further information about measurement of ECL can be found in note 4.1.

The net effect of ECL measured under IFRS 9 for the other financial assets are insignificant to the condensed consolidated financial statements as all of such financial assets are graded as stage 1 exposures.

#### 3 Key accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.



**Notes to the condensed consolidated interim financial statements  
for the six month period ended 30 June 2018**

**3 Key accounting estimates and judgements (continued)**

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described as follows:

*(a) Classification of financial assets*

In accordance with IFRS 9 guidance, the Group classifies its financial assets based on the assessments of the business models in which the asset are held at a portfolio level and whether cash flows generated by assets constitute solely payments of principal and interest. This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause in all debt instruments of a certain type (e.g. all housing loans) breaches SPPI and results in a material portfolio being recorded at FVTPL. Explanation of and further details on business model and cash flow characteristics of financial assets are described in note 4.1.

*(b) Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

**4 Financial risk management**

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2017.

**4.1 Credit risk**

Credit risk is the risk of suffering financial loss, should any of the Group's customers fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loan and advances, loan commitments arising from such lending activities, trade finance and treasury activities. The Group is also exposed to other credit risks arising from investments in debts instruments.

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

### **Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018**

#### **4 Financial risk management (continued)**

##### **4.1 Credit risk (continued)**

Credit risk is the single largest risk from the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a risk management department which reports regularly to the Risk Management Committee.

The ECL recorded on loans and advances measured at amortised cost and Islamic financing and investing assets measured at amortised cost have been disclosed in note 10.1 and 10.2 respectively.

##### **Write-off policy**

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the quarter ended 30 June 2018 was Nil. The Group still seeks to recover amounts it is legally owned in full, but which have been partially written off due to no reasonable expectation of full recovery.

##### **Modification of financial assets**

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, include that payment will most likely continue. These policies are kept under continuous review.

Risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset (refer note 3.3 above). The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for at least 12 consecutive months.

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

###### (a) Credit risk measurement

###### Loans and advances (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

###### Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model.

The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

###### (b) Expected credit loss measurement

IFRS 9 outlines a 'six-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note for a description of how the Group defines default and credit-impaired assets.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

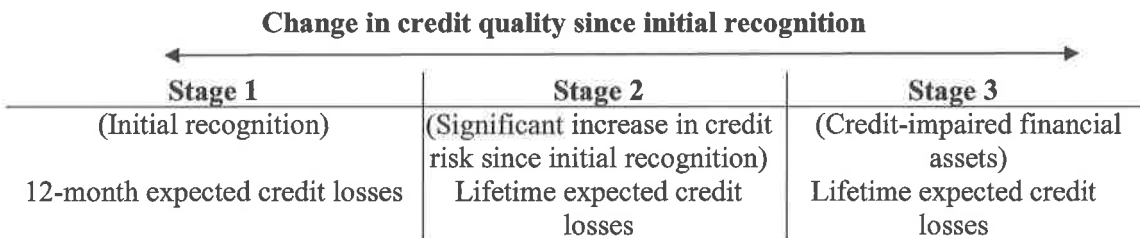
#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

###### (b) Expected credit loss measurement (continued)

- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to following note for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information. The below note includes an explanation of how the Group has incorporated this in its ECL models.

The following diagram summarises the impairment requirements under IFRS 9:



###### Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

###### Quantitative criteria

###### Corporate Loans:

For Corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following factors:-

- Loan facilities restructured in the last 12 months;
- Loan facilities that are past due for 30 days and above but less than 90 days;
- Actual or expected change in external ratings and / or internal ratings

###### Retail:

For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

###### (b) *Expected credit loss measurement* (continued)

###### Treasury

- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment's expected performance & behavior of borrower (collateral value, payment holiday, Payment to Income ratio etc.).

###### Qualitative criteria:

###### Corporate Loans:

- Feedback from the Early Warning Signal framework of the Group (along factors such as adverse change in business, financial or economic conditions)

###### Backstop:

A backstop is applied and the financial asset is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

###### (c) *Definition of default and credit-impaired assets*

The Group defines a financial instrument as in default, which fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

In addition to 90 DPD, for the retail and corporate portfolio, the default definition used is consistent with the Basel Framework. According to the Basel II definition, default is considered to have occurred with regard to particular obligors when either one or the following events have taken place:

- The Group considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Group to actions like realizing security (if held).
- The Group puts credit obligation on non-accrued status.
- The Group makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Group taking on the exposure.
- The Group sells the credit obligation at a material credit-related economic loss.
- The Group consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Group has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Group. The obligor has sought or has been placed in bankruptcy or similar protection wherein this would avoid or delay repayment of the credit obligation to the Group.
- The obligor is past due more than 90 days on any material credit obligation to the Group. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current outstanding.

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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

###### (c) Definition of default and credit-impaired assets (continued)

###### Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These six components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

###### (c) Definition of default and credit-impaired assets (continued)

###### Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation based, based on analysis of the Group’s recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to the Note below for an explanation of forward-looking information and its inclusion in ECL calculations.

These assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

###### Forward-looking information incorporated in the ECL Models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk.

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

###### (c) Definition of default and credit-impaired assets (continued)

###### Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Group's asset portfolio (except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Group which is based on the Group's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

The Risk Rating system for performing assets ranges from 1 to 19, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated 20, 21, 22, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2012* issued by the UAE Central bank. The Group's internal credit grades have also been mapped to external agency ratings for better comparison.

###### Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

###### Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer / Chief Credit Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Group directly reporting to the Chief Credit Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.



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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018

#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

###### (c) Definition of default and credit-impaired assets (continued)

###### Credit monitoring (continued)

With respect to the Group's consumer portfolio, asset quality is monitored closely with 30/60/90 days past due accounts and delinquency trends are monitored continuously for each Consumer Product of the Group. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the Consumer portfolio is done strictly as per the IFRS 9 guideline and UAE Central Bank guidelines.

###### Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 4 Financial risk management (continued)

##### 4.1 Credit risk (continued)

##### (d) Credit risk exposure

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets

	30 June 2018 (Unaudited)			31 December 2017 Audited	
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Total AED'000
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>					
<i>Loans and advances – At amortised cost</i>	2,139,450	173,557	376,135	2,689,142	2,550,385
Loss allowance	(24,565)	(30,946)	(259,363)	(314,874)	(214,584)
Carrying amount	2,114,885	142,611	116,772	2,374,268	2,335,801
<i>Islamic financing and investing assets – At amortised cost</i>					
Loss allowance	150,748	8,194	62,203	221,146	224,314
Carrying amount	(3,740)	(2,095)	(53,718)	(59,553)	(50,944)
	147,008	6,099	8,485	161,593	173,370
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>					
	1,542,164	38,231	26,826	1,607,222	1,950,461

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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

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

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Loans and advances	57,876	52,654	114,156	100,555
Income from Islamic financing and investing assets	4,759	4,647	9,198	9,140
Due from banks	3,197	1,532	6,316	3,728
Others	939	2,607	1,489	5,014
<b>Interest income and income from Islamic financing and investing assets</b>	<b>66,771</b>	<b>61,440</b>	<b>131,159</b>	<b>118,437</b>
Customers' deposits and margin accounts	(15,373)	(13,942)	(29,701)	(27,352)
Due to banks and other financial institutions	(4,096)	(3,446)	(8,073)	(6,586)
Profit distributable to depositors	(503)	(672)	(1,016)	(1,548)
<b>Interest expense and profit distributable to depositors</b>	<b>(19,972)</b>	<b>(18,060)</b>	<b>(38,790)</b>	<b>(35,486)</b>
<b>Net interest income and income from Islamic financing and investing assets</b>	<b>46,799</b>	<b>43,380</b>	<b>92,369</b>	<b>82,951</b>

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

#### 6 Net (loss)/income from investments

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Profit/(loss) on disposal of investments carried at fair value through profit or loss	2,589	(2,450)	2,068	(2,641)
Change in fair value of investments carried at fair value through profit or loss	(10,860)	(8,498)	(18,247)	(20,962)
Dividends from investments carried at fair value through profit or loss	1,119	2,589	8,113	11,679
Net loss from investments carried at fair value through profit or loss	(7,152)	(8,359)	(8,066)	(11,924)
Dividend income from investments carried at fair value through other comprehensive income	3,632	4,093	18,725	13,594
<b>Net (loss)/income from investments</b>	<b>(3,520)</b>	<b>(4,266)</b>	<b>10,659</b>	<b>1,670</b>

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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 7 Basic and diluted earnings per share

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. As at 30 June 2018, the Company has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.

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

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
(Loss)/profit for the period attributable to equity holders of the parent	(2,142)	7,033	16,643	32,240
Less: Tier 1 Sukuk coupon paid	(5,625)	(5,625)	(11,250)	(11,250)
	<u>(7,767)</u>	<u>1,408</u>	<u>5,393</u>	<u>20,990</u>
Number of ordinary shares in issue	310,050	310,050	310,050	310,050
Less: Treasury shares	(9,400)	(9,400)	(9,400)	(9,400)
Less: Employees' share-based payment scheme	(1,750)	(1,750)	(1,750)	(1,750)
	<u>298,900</u>	<u>298,900</u>	<u>298,900</u>	<u>298,900</u>
Earnings per share (AED)	<u>0.00</u>	<u>0.00</u>	<u>0.02</u>	<u>0.07</u>

#### 8 Cash and cash equivalents

	30 June 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
<b>Cash balances</b>		
Cash on hand	13,002	11,437
Restricted cash balances*	<u>6,000</u>	<u>6,000</u>
	<u>19,002</u>	<u>17,437</u>
<b>Due from banks with original maturities of less than three months</b>		
Current and demand accounts	122,389	110,761
Balance with UAE Central Bank	25,457	24,185
Placements with banks	206,096	331,309
Call accounts	308,206	234,777
	<u>662,148</u>	<u>701,032</u>
Due to banks and other financial institutions with original maturity of less than three months	(18,229)	(23,831)
Other restricted cash balances*	<u>(6,000)</u>	<u>(6,000)</u>
<b>Net cash and cash equivalents</b>	<u>656,921</u>	<u>688,638</u>

\* Restricted cash represents deposits with insurance authority amounting to AED 6,000 (2017: AED 6,000 thousand).

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

**Notes to condensed consolidated interim financial statements  
for the six month period ended 30 June 2018 (continued)**

**9 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
<b>30 June 2018-unaudited</b>				
Equity instruments:				
- Quoted	505,301	190,795	-	696,096
- Unquoted	95,752	-	-	95,752
Debt instruments:				
- Quoted - fixed rate	-	1,486	-	1,486
- Unquoted investments	-	-	54,413	54,413
Unquoted investment in managed funds	6,781	-	-	6,781
	<u>607,834</u>	<u>192,281</u>	<u>54,413</u>	<u>854,528</u>
Within UAE	381,054	192,281	-	573,335
Outside UAE	226,780	-	54,413	281,193
	<u>607,834</u>	<u>192,281</u>	<u>54,413</u>	<u>854,528</u>
<b>31 December 2017-audited</b>				
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
Unquoted 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>

The fair value of investments carried at amortised cost at 30 June 2018 is AED 54,959 thousand (2017: AED 82,657 thousand).

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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 10 Loans, advances and Islamic financing and investing assets

##### 10.1 Loans and advances

	30 June 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Commercial loans	2,147,974	2,052,177
Retail finance	541,167	498,208
Gross loans and advances	<u>2,689,141</u>	<u>2,550,385</u>
Less: Allowance for impairment	<u>(314,873)</u>	<u>(214,584)</u>
Net loans and advances	<u>2,374,268</u>	<u>2,335,801</u>

The movement in the allowance for impairment during the period/year is as follows:

	30 June 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
At 1 January	214,584	219,801
Changes on initial application of IFRS 9	61,878	-
<b>Restated balance at 1 January 2018</b>	<u>276,462</u>	219,801
Impairment charges for the period/year	38,411	48,736
Reversal of unrequired impairment charges	-	(5,300)
Amounts written off	-	(48,653)
At 30 June/31 December	<u>314,873</u>	<u>214,584</u>

The allowance for impairment includes a specific provision of AED 259.4 million for stage 3 loans of the Group.

##### 10.2 Islamic financing and investing assets

	30 June 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Commodity Murabaha	129,236	134,942
Covered card and drawings	70,615	62,894
Purchase and lease back	2,620	5,346
Ijarah	15,695	18,211
Others	2,980	2,921
Gross islamic financing and investing assets	<u>221,146</u>	<u>224,314</u>
Less: Allowance for impairment	<u>(59,553)</u>	<u>(50,944)</u>
Net Islamic financing and investing assets	<u>161,593</u>	<u>173,370</u>
		(36)

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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

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

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

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

	<b>30 June 2018 AED'000</b>	31 December 2017 AED'000
At 1 January	50,944	38,421
Changes on initial application of IFRS 9	4,484	-
<b>Restated balance at 1 January 2018</b>	<b>55,428</b>	38,421
Charges for the period/year	4,125	12,523
At 30 June/31 December	<b>59,553</b>	50,944

The allowance for impairment includes a specific provision of AED 53.7 million for stage 3 Islamic financing and investing assets of the Group.

The group has no investments in Al-Abraj Group Company as at 30 June 2018

#### 11 Customers' deposits and margin accounts

	<b>30 June 2018 AED'000</b>	31 December 2017 AED'000
Call and demand deposits	267,778	222,281
Time deposits	1,843,609	1,870,287
Wakala deposits	49,088	60,834
	<b>2,160,475</b>	2,153,402
Margin accounts	780,223	797,142
	<b>2,940,698</b>	2,950,544

Analysis of customers' deposits by sector is as follows:

Government	871,448	720,414
Corporate	2,069,250	2,230,130
	<b>2,940,698</b>	2,950,544

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 4.05% p.a (2017: Nil to 3.50% p.a)

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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 12 Share capital

	30 June 2018 AED'000	31 December 2017 AED'000
<b>Authorised, issued and fully paid</b>		
310.1million shares (2017: 310.1million shares) of AED AED 1 each (2017: AED 1 each)	<u>310,050</u>	<u>310,050</u>

#### 13 Treasury shares

Treasury shares represent the cost of 9,400 thousand shares of the Company held by the Company and a subsidiary as at 30 June 2018 (2017: 9,400 thousand shares).

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

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

During the period, nil shares were granted to employees and the value of outstanding shares not yet granted to employees as at 30 June 2018 were AED 1,750 thousand (2017: AED 1,750 thousand).

#### 15 Commitments and contingent liabilities

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

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

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

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

	30 June 2018 AED'000	31 December 2017 AED'000
Letters of credit	149,732	218,437
Letters of guarantee	1,453,290	1,509,750
Capital commitments	4,200	4,200
Irrevocable commitment to extend credit	-	218,074
	<u>1,607,222</u>	<u>1,950,461</u>

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



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

### Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 16 Related party disclosures

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

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

	<b>30 June 2018 Unaudited AED'000</b>	<b>31 December 2017 Audited AED'000</b>
<b>Loans and advances to customers</b>		
To key management staff	390	726
To members of board of directors	<u>38,025</u>	<u>9,326</u>
<b>Customers' deposits</b>		
From others	<u>11,745</u>	<u>11,084</u>

#### Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the period/year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the period ended 30 June 2018, the Group has made a provision amount to AED Nil for doubtful debts relating to amounts owed by related parties (2017: Nil).

The significant transactions included in the condensed consolidated interim income statement are as follows:

	<b>Six month period ended 30 June</b>	
	<b>2018 AED'000 Unaudited</b>	<b>2017 AED'000 Unaudited</b>
<b>Interest and commission income</b>		
From key management	15	10
From board of directors	<u>405</u>	<u>324</u>
<b>Interest expense</b>		
To others	<u>68</u>	<u>52</u>
<b>Key management remuneration</b>		
Short term benefits (salaries, benefits and bonuses)	11,664	10,978
Number of key management personnel	<u>9</u>	<u>10</u>

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

### **Notes to condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)**

#### **17 Seasonality of results**

No income of a seasonal nature was recorded in the condensed consolidated interim income statement for the period ended 30 June 2018 and 2017.

#### **18 Segment information**

For management purposes, the Group is organised into five 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) Brokerage, which involves one of the Group's subsidiaries providing brokerage services.

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

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

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

**Notes to the condensed consolidated interim financial statements  
for the six month period ended 30 June 2018 (continued)**

**18 Segment information (continued)**

	Commercial and retail financing AED'000	Investment AED'000	Islamic financing and investing AED'000	Brokerage AED'000	Insurance AED'000	Unallocated AED'000	Total AED'000
<b>30 June 2018</b>							
Operating income	92,638	32,923	11,805	4,349	33,819	-	175,534
Inter-segment revenues	29,079	(29,079)	-	-	-	-	-
Segmental results and profit (loss) from operations	14,814	26,848	887	260	6,625	(29,079)	20,355
Segmental assets	2,328,809	1,519,823	203,385	181,762	286,009	-	4,519,788
Segmental liabilities	2,313,995	985,470	124,726	100,889	189,430	-	3,714,510
<b>30 June 2017</b>							
Operating income	84,666	47,138	10,227	7,410	13,121	-	162,562
Inter-segment revenues	31,551	(31,551)	-	-	-	-	-
Segmental results and profit (loss) from operations	20,197	34,964	(4,233)	2,806	(4,489)	(18,660)	30,585
Segmental assets	2,359,009	1,411,500	236,711	236,750	256,427	-	4,500,397
Segmental liabilities	2,338,812	759,128	152,737	157,266	164,423	-	3,572,366
<b>31 December 2017</b>							
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

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 19 Fair value measurement

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 30 June 2018:

	Date of valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>Assets measured at fair value</b>					
Investment properties	07 December 2017	-	-	82,070	82,070
<b>At fair value through profit or loss</b>					
Quoted equities	30 June 2018	190,795	-	-	190,795
Quoted debt instruments	30 June 2018	1,486	-	-	1,486
		<u>192,281</u>	<u>-</u>	<u>-</u>	<u>192,281</u>
<b>At fair value through other comprehensive income</b>					
Quoted equities	30 June 2018	505,301	-	-	505,301
Unquoted equities	30 June 2018	-	-	95,752	95,752
Investment in managed funds	30 June 2018	-	-	6,781	6,781
		<u>505,301</u>	<u>-</u>	<u>102,533</u>	<u>607,834</u>
<b>Assets for which fair value is disclosed</b>					
Investment carried at amortised cost		-	54,959	-	54,959

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

	Date of Valuation	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>Assets measured at fair value</b>					
Investment properties	07 December 2017	-	-	82,070	82,070
<b>At fair value through profit or loss</b>					
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>
<b>At fair value through other comprehensive income</b>					
Quoted equities	31 December 2017	616,102	-	-	616,102
Unquoted equities	31 December 2017	-	-	92,917	92,917
Investment in managed funds	31 December 2017	-	-	7,322	7,322
		<u>616,102</u>	<u>-</u>	<u>100,239</u>	<u>716,341</u>
<b>Assets for which fair value is disclosed</b>					
Investment carried at amortised cost		-	82,657	-	82,657

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

### Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)

#### 19 Fair value measurement (continued)

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

##### Investments carried at fair value through profit or loss

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

##### Investments carried at fair value through other comprehensive income

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

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

	<b>Valuation technique</b>	<b>Significant unobservable inputs valuation</b>	<b>Range (Weighted average)</b>	<b>Sensitivity of the input to fair value</b>
Unquoted equities	Price Earning Multiple Valuation Basis	PE Multiple	9- 11	Increase (decrease) in the PE Multiples by 1 would result in increase (decrease) in fair value by AED 5 million
	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>market</b>	<b>Range</b>
Investment property	Income method	Estimated annual rent income Yield Occupancy level		AED 7.6 – 8.7 million 8.5% - 9.5% 95% - 100%

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

### **Notes to the condensed consolidated interim financial statements for the six month period ended 30 June 2018 (continued)**

#### **19 Fair value measurement (continued)**

##### **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 (2017: None).

#### **20 Legal proceedings**

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

#### **21 Comparative figures**

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