# Finance House P.J.S.C.

Condensed consolidated interim financial statements

*31 March 2019*

# Finance House P.J.S.C.

## Condensed consolidated interim financial statements

*For the three months period ended 31 March 2019*

KPMG Lower Gulf Limited
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## Independent Auditors' Report on Review of Interim Financial Information

To the shareholders of Finance House P.J.S.C.

*Introduction*

We have reviewed the accompanying 31 March 2019 condensed consolidated interim financial information of Finance House P.J.S.C. ("the Company"), and its subsidiaries (together referred to as "the Group") which comprises:

- the condensed consolidated interim statement of financial position as at 31 March 2019;
- the condensed consolidated interim statement of comprehensive income for the three-month period ended 31 March 2019;
- the condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2019;
- the condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2019; and
- notes to the interim financial information.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these 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 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.

*Other matter*

The condensed consolidated interim financial information for the three-month period ended 31 March 2018 and the consolidated financial statements for the year ended 31 December 2018 were reviewed and audited by another auditor who expressed an unmodified conclusion on the condensed consolidated interim financial information for the three-month period ended 31 March 2018 on 6 May 2018 and an unmodified opinion on the consolidated financial statements for the year ended 31 December 2018 on 13 February 2019.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

*KPMG Lower Gulf Limited*

01 MAY 2019

Saif Fayez Shawer
Registration No: 1131
Abu Dhabi, United Arab Emirates
Date:

# Finance House P.J.S.C.

## Condensed consolidated interim statement of financial position

*As at*

| | Note | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash balances | *8* | **17,870** | 17,599 |
| Due from banks | *8* | **787,049** | 512,563 |
| Investments carried at fair value through other comprehensive income | *9* | **560,458** | 560,578 |
| Investments carried at fair value through profit or loss | *9* | **96,499** | 161,384 |
| Investments carried at amortised cost | *9* | **1,837** | 1,837 |
| Loans and advances | *10* | **2,202,010** | 2,300,504 |
| Islamic financing and investing assets | *11* | **127,722** | 142,614 |
| Investment in associates | | **91,027** | 50,485 |
| Interest receivable and other assets | | **284,741** | 236,489 |
| Property, fixtures and equipment | | **97,388** | 24,532 |
| Intangibles | | **6,705** | 6,705 |
| Investment properties | | **4,478** | 79,478 |
| **Total assets** | | **4,277,784** | 4,094,768 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Customers' deposits and margin accounts | *12* | **2,873,435** | 2,747,275 |
| Due to banks and other financial institutions | *8* | **23,833** | 15,014 |
| Short term borrowings | | **23,100** | 27,600 |
| Medium term loan | | **175,002** | 183,335 |
| Interest payable and other liabilities | | **367,857** | 339,291 |
| Provision for employees' end of service benefits | | **14,789** | 14,080 |
| **Total liabilities** | | **3,478,016** | 3,326,595 |

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

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

*As at*

| | *Note* | **(Unaudited) 31 March 2019 AED'000** | (Audited) 31 December 2018 AED'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | *13* | **310,050** | 310,050 |
| Treasury shares | *14* | **(21,402)** | (21,402) |
| Employees' share-based payment scheme | *15* | **(1,750)** | (1,750) |
| Statutory reserve | | **147,367** | 147,367 |
| Fair value reserve | | **(52,481)** | (44,690) |
| Retained earnings | | **40,825** | 20,146 |
| Tier 1 Sukuk | *17* | **281,235** | 281,500 |
| Tier 1 Bonds | *17* | **15,000** | - |
| Proposed directors' remuneration | | **1,064** | 1,064 |
| | | **719,908** | 692,285 |
| Non-controlling interests | | **79,860** | 75,888 |
| **Total equity** | | **799,768** | 768,173 |
| **Total liabilities and equity** | | **4,277,784** | 4,094,768 |
| **Commitments and contingent liabilities** | *16* | **1,405,845** | 1,544,002 |

These condensed consolidated interim financial statements were authorized and approved for issue by the Board of Directors on 1 May 2019 and signed on their behalf by:

Mr. Mohammed Alqubaisi
*Chairman*

Mr. Hamid Taylor
*General Manager*

The notes on pages 10 to 35 are an integral part of this condensed consolidated interim financial statements.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1 and 2.

# Finance House P.J.S.C.

## Condensed consolidated interim statement of comprehensive income

*For the three month period ended 31 March (Unaudited)*

| | Note | 2019 AED'000 | 2018 AED'000 |
|---|---|---|---|
| Interest income and income from Islamic financing and investing assets | 5 | **62,127** | 64,388 |
| Interest expense and profit distributable to depositors | 5 | **(21,973)** | (18,818) |
| **Net interest income and income from Islamic financing and investing assets** | 5 | **40,154** | 45,570 |
| Net income from investment at amortized cost | | **4,619** | 4,918 |
| **Net interest income, income from Islamic financing and investing assets and net income from perpetual instruments** | | **44,773** | 50,488 |
| Fee and commission income | | **14,404** | 17,277 |
| Fee and commission expenses | | **(2,261)** | (3,832) |
| **Net fee and commission income** | | **12,143** | 13,445 |
| Net investment income | 6 | **10,900** | 14,509 |
| Credit impairment loss on loans and advances | 10 | **(18,556)** | (22,478) |
| Credit impairment loss on islamic financing and investing assets | 11 | **(1,803)** | (1,648) |
| Net insurance income | | **17,676** | 12,801 |
| Other operating income | | **4,522** | 6,402 |
| **Net operating income** | | **69,655** | 73,519 |
| Salaries and employees related expenses | | **(34,285)** | (35,711) |
| Depreciation of property, fixtures and equipment | | **(2,664)** | (2,003) |
| Amortisation of intangibles | | **-** | (196) |
| General and administrative expenses | | **(17,199)** | (14,683) |
| **Profit for the period** | | **15,507** | 20,926 |
| Attributable to: | | | |
| Equity holders of the parent | | **12,622** | 18,785 |
| Non-controlling interests | | **2,885** | 2,141 |
| | | **15,507** | 20,926 |
| Basic and diluted earnings per share attributable to ordinary shares (AED) | 7 | **0.02** | 0.04 |

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

### Condensed consolidated interim statement of comprehensive income *(continued)*

*For the three month period ended 31 March (Unaudited)*

| | **2019 AED'000** | 2018 AED'000 |
|---|---|---|
| Profit for the period | **15,507** | 20,926 |
| **Other comprehensive income :** | | |
| **Items that will not be reclassified to the condensed consolidated interim income statement:** | | |
| Change in fair value of financial assets carried at fair value through other comprehensive income | **(6,704)** | (4,484) |
| Directors' remuneration paid | **-** | (4,540) |
| Gain on disposal of investments at FVOCI | **13,682** | - |
| Other comprehensive income / (loss) for the period | **6,978** | (9,024) |
| **Total comprehensive income for the period** | **22,485** | 11,902 |
| **Attributable to:** | | |
| Equity holders of the parent | **18,513** | 9,924 |
| Non-controlling interests | **3,972** | 1,978 |
| | **22,485** | 11,902 |

The notes on pages 10 to 35 are an integral part of this condensed consolidated interim financial statements.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1 and 2.

# Finance House P.J.S.C.

## Condensed consolidated interim statement of changes in equity

*For the three month period ended 31 March 2019 (Unaudited)*

| | Share Capital AED'000 | Treasury shares AED'000 | Employees' share-based Special reserve AED'000 | Statutory reserve AED'000 | Fair value reserve AED'000 | Retained earnings AED'000 | Proposed directors' remuneration AED'000 | Tier 1 Sukuk AED'000 | Attributable to shareholders parent of the company AED'000 | Non controlling interest AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2018 | 310,050 | (21,402) | (1,750) | 146,185 | (6,305) | 115,899 | 4,540 | 283,550 | 830,767 | 72,432 | 903,199 |
| Changes on initial application of IFRS 9 | - | - | - | - | - | (66,361) | - | - | (66,361) | | (66,361) |
| **Restated balance at 1 January 2018** | 310,050 | (21,402) | (1,750) | 146,185 | (6,305) | 49,538 | 4,540 | 283,550 | 764,406 | 72,432 | 836,838 |
| Profit for the period | - | - | - | - | - | 18,785 | - | - | 18,785 | 2,141 | 20,926 |
| Change in fair value of investments carried at fair value through other comprehensive income | - | - | - | - | (4,321) | - | - | - | (4,321) | (163) | (4,484) |
| Directors remuneration paid | - | - | - | - | - | - | (4,540) | - | (4,540) | - | (4,540) |
| **Total comprehensive income for the period** | - | - | - | - | (4,321) | 18,785 | (4,540) | - | 9,924 | 1,978 | 11,902 |
| Profits on disposal of investments carried at fair value through other comprehensive income | - | - | - | - | (1,479) | 1,479 | - | - | - | - | - |
| Dividend | - | - | - | - | - | (15,141) | - | - | (15,141) | - | (15,141) |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | - | (1,388) | (1,388) |
| Tier 1 SUKUK coupon paid | - | - | - | - | - | (5,625) | - | - | (5,625) | - | (5,625) |
| **Balance at 31 March 2018** | 310,050 | (21,402) | (1,750) | 146,185 | (12,105) | 49,036 | - | 283,550 | 753,564 | 73,022 | 826,586 |
| **Balance at 1 January 2019** | 310,050 | (21,402) | (1,750) | 147,367 | (44,690) | 20,146 | 1,064 | 281,500 | 692,285 | 75,888 | 768,173 |
| Net change in fair value of investments carried at fair value through other comprehensive income | - | - | - | - | (7,791) | 13,682 | - | - | 5,891 | 1,087 | 6,978 |
| Profit for the period | - | - | - | - | - | 12,622 | - | - | 12,622 | 2,885 | 15,507 |
| **Total comprehensive income for the period** | - | - | - | - | (7,791) | 26,304 | - | - | **18,513** | **3,972** | **22,485** |
| Movement in Tier 1 SUKUK | - | - | - | - | - | - | - | 14,735 | 14,735 | - | 14,735 |
| Tier 1 SUKUK coupon paid | - | - | - | - | - | (5,625) | - | - | (5,625) | - | (5,625) |
| **Balance at 31 March 2019** | **310,050** | **(21402)** | **(1,750)** | **147,367** | **(52,481)** | **40,825** | **1,064** | **296,235** | **719,908** | **79,860** | **799,768** |

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# Finance House P.J.S.C.

## Condensed consolidated interim statement of cash flows

*For the three month period ended 31 March (Unaudited)*

| | Note | 2019 AED'000 | 2018 AED'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | | **15,507** | 20,926 |
| *Adjustments for:* | | | |
| Depreciation of property, fixtures and equipment | | **2,664** | 2,003 |
| Amortisation of intangible asset | | **-** | 196 |
| Share of result of associate | | **(567)** | (330) |
| Dividend income from investments | | **(16,613)** | (22,087) |
| Loss on disposal of investments carried at fair value through profit or loss | | **18,329** | 521 |
| Change in fair value of investments carried at fair value through profit or loss | | **(12,049)** | 7,387 |
| Credit impairment loss of loans and advances | | **18,556** | 22,478 |
| Credit impairment loss of islamic financing and investing assets | | **1,803** | 1,648 |
| Gain on acquisition of investment in subsidiaries | | **-** | (1,388) |
| Provision for employees' end of service benefits | | **861** | 682 |
| | | **28,491** | 32,036 |
| *Changes in:* | | | |
| Islamic financing and investing assets | | **13,089** | 6,208 |
| Loans and advances | | **79,938** | 71,949 |
| Interest receivable and other assets | | **(48,252)** | (55,324) |
| Customers' deposits and margin accounts | | **126,160** | (190,495) |
| Interest payable and other liabilities | | **28,566** | 23,556 |
| **Cash from / (used in) operating activities** | | **227,992** | (112,070) |
| Employees' end of service benefits paid | | **(152)** | (366) |
| **Net cash from / (used in) operating activities** | | **227,840** | (112,436) |
| **Cash flows from investing activities** | | | |
| Purchase of investments carried at fair value through other comprehensive income | | **(12,596)** | (45,765) |
| Proceeds from sale of investments carried at fair value through other comprehensive income | | **19,694** | 134,239 |
| Purchase of investments carried at fair value through profit or loss | | **-** | (33,726) |
| Proceeds from sale of investments carried at fair value through profit or loss | | **58,605** | 52,418 |
| Proceeds from sale of investments carried at amortised cost | | **-** | 10,843 |
| Disposal of Investment Property | | **75,000** | - |
| Purchase of property, fixtures and equipment | | **(75,520)** | (3,637) |
| Purchase/transfer of investments in associates | | **(39,975)** | - |
| Dividend received | | **16,613** | 22,087 |
| **Net cash from investing activities** | | **41,821** | 136,459 |

# Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

## Condensed consolidated interim statement of cash flows *(continued)*

*For the three month period ended 31 March (Unaudited)*

| | *Note* | **2019 AED'000** | 2018 AED'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Repayments of short term borrowings | | **(4,500)** | (4,410) |
| Repayments of medium term loan | | **(8,333)** | (20,833) |
| Movement in Tier 1 SUKUK | | **14,735** | - |
| Tier 1 SUKUK coupon paid | | **(5,625)** | (5,625) |
| Cash dividend paid | | **-** | (15,141) |
| Directors remuneration paid | | **-** | (4,540) |
| **Net cash used in financing activities** | | **(3,723)** | (50,549) |
| Net increase / (decrease) in cash and cash equivalents | | **265,938** | (26,526) |
| Cash and cash equivalents at 1 January | | **509,148** | 688,638 |
| **Cash and cash equivalents at 31 March** | *8* | **775,086** | 662,112 |

The notes on pages 10 to 35 are an integral part of this condensed consolidated interim financial statements.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1 and 2.

## 1 Legal status and principal 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 registered head office of the Company is at P.O. Box 7878, Abu Dhabi, U.A.E.

The Company was established on 13 March 2004 and commenced its operations on 18 July 2004. The Company performs its activities through its head office in Abu Dhabi and its Abu Dhabi, Dubai, Sharjah and Musaffah branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

The financial statements of the Company as at and for the quarter ending 31 March 2018 and year ended 31 December 2018 are available upon request from the Company's registered address P.O. Box 7878, Abu Dhabi, United Arab Emirates.

This condensed consolidated interim financial statements was approved on behalf of the Board of Directors on 01 May 2019.

## 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.

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 2018. In addition, results for the period from 1 January 2019 to 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

#### *2.1 New currently effective requirements*

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new IFRSs and amendments as of 1 January 2019:

- IFRS 16 Leases

The IASB issued a new standard for accounting for leases in January 2018. a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. b) Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short term' leases and leases of 'low-value' assets. c) Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Group has assessed the impact of the above standard. Based on the assessment, the above standard has no significant impact on the financial statements of the Group as at the reporting date.

The adoption of the other standards and interpretations above had no significant impact on the Group's consolidated financial position or performance.

#### *2.2 Use of judgments and estimates*

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018.

## 2 Basis of preparation *(continued)*

### 2.3 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 |
|---|---|---|---|---|
| | | **31 March 2019** | 31 December 2018 | |
| 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** | 45.15 | 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 upon consolidation.

## 3 Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those in the Group's consolidated financial statements as at and for the year ended 31 December 2018.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

## 3 Changes in significant accounting policies *(continued)*

***IFRS 16 Leases***

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these condensed consolidated interim financial statements.

The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policies are disclosed below.

### A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

### B. As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment. For leases of other assets, which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

#### *i. Leases classified as operating leases under IAS 17*

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application - the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

## 3 Changes in significant accounting policies *(continued)*

***IFRS 16 Leases** (continued)*

***i. Leases classified as operating leases under IAS 17** (continued)*

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

***ii. Leases previously classified as finance leases***

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

**C. As a lessor**

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Group concluded that the sub-lease is a finance lease under IFRS 16.

The Group applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

**D. Impacts on financial statements**

Based on management assessment, the Group has determined the application of IFRS 16 at 1 January 2019 does not result in a significant impact on the condensed consolidated interim financial statements.

# Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

## 4 Financial risk management

### 4.1 Credit risk

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 and 11 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 31 March 2019 was Nil. The Group still seeks to recover amounts it is legally owed 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 maximizing 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.

## 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 grading that reflect its assessment of the probability of default of individual counterparties. The Group use 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 an 18 and 20 rating grade.

*(b) Expected credit loss measurement*

IFRS 9 outlines a 'three-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 4.1(c) for a description of how the Group defines default and credit-impaired assets.
- 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.

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

Notes to the condensed consolidated interim financial statements

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

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

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

- 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 summarizes the impairment requirements under IFRS 9:

**Change in credit quality since initial recognition**

| **Stage 1** | **Stage 2** | **Stage 3** |
|---|---|---|
| (Initial recognition) | (Significant increase in credit risk since initial recognition) | (Credit-impaired financial assets) |
| 12-month expected credit losses | Lifetime expected credit losses | Lifetime expected credit losses |

*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.

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).

## 4 Financial risk management *(continued)*

### 4.1 Credit risk *(continued)*

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

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 Entity considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Entity to actions like realizing security (if held).
- The Entity puts credit obligation on non-accrued status.
- The Entity makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Entity taking on the exposure.
- The Entity sells the credit obligation at a material credit-related economic loss.
- The Entity 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 Entity 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.

## 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 three 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.

## 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 utilization 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.

## 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 categorized 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.

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 UAE Central Bank guidelines.

## 4 Financial risk management *(continued)*

### 4.1 Credit risk *(continued)*

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

*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.

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2018.

Credit risk

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amounts of financial assets represent the maximum credit exposure.

## 4 Financial risk management *(continued)*

### 4.1 Credit risk *(continued)*

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

| Credit risk exposures | As at 31 March 2019 | | | | 31 December 2018 |
|---|---|---|---|---|---|
| | ECL staging | | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | | |
| | **12-month ECL AED'000** | **Lifetime ECL AED'000** | **Lifetime ECL AED'000** | **Total AED'000** | Total AED'000 |
| *Loans and advances – At amortised cost* | 1,781,090 | 283,994 | 507,127 | **2,572,211** | 2,652,149 |
| Loss allowance | (17,912) | (16,833) | (335,456) | **(370,201)** | (351,645) |
| **Carrying amount** | **1,763,178** | **267,161** | **171,671** | **2,202,010** | 2,300,504 |
| *Islamic financing and investing assets – At amortised cost* | 114,585 | 5,971 | 68,710 | **189,266** | 202,305 |
| Loss allowance | (1,938) | (1,195) | (58,411) | **(61,544)** | (59,741) |
| **Carrying amount** | **112,647** | **4,776** | **10,299** | **127,722** | 142,614 |

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

| | For the three months ended 31 March | |
|---|---|---|
| | **(Unaudited)** | (Unaudited) |
| | **2019** | 2018 |
| | **AED'000** | AED'000 |
| Loans and advances | **54,590** | 56,280 |
| Islamic financing and investing assets | **4,244** | 4,439 |
| Due from banks | **3,107** | 3,119 |
| Others | **186** | 550 |
| **Interest income and income from Islamic financing and investing assets** | **62,127** | 64,388 |
| Customers' deposits and margin accounts | **(18,712)** | (14,328) |
| Due to banks and other financial institutions | **(2,848)** | (3,977) |
| Profit distributable to depositors | **(413)** | (513) |
| **Interest expense and profit distributable to depositors** | **(21,973)** | (18,818) |
| **Net interest income and income from Islamic financing and investing assets** | **40,154** | 45,570 |

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

## 6 Net investment income

| | For the three months ended 31 March | |
|---|---|---|
| | **(Unaudited)** | (Unaudited) |
| | **2019** | 2018 |
| | **AED'000** | AED'000 |
| Loss on disposal of investments carried at fair value through profit or loss | **(18,329)** | (521) |
| Change in fair value of investments carried at fair value through profit or loss | **12,049** | (7,387) |
| Dividend income from investments carried at fair value through profit or loss | **2,543** | 6,994 |
| Loss from investments carried at fair value through profit or loss | **(3,737)** | (914) |
| Dividend income from investments carried at fair value through other comprehensive income | **14,070** | 15,093 |
| Share of results of associate | **567** | 330 |
| **Net investment income** | **10,900** | 14,509 |

## 7 Basic and diluted earnings per share

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

| | For the three months ended 31 March | |
|---|---|---|
| | **(Unaudited)** | (Unaudited) |
| | **2019** | 2018 |
| | **AED'000** | AED'000 |
| Profit for the period attributable to equity holders of the parent | **12,622** | 18,785 |
| Less: Tier 1 Sukuk Coupon paid | **(5,625)** | (5,625) |
| | **6,997** | 13,160 |
| Number of ordinary shares in issue (thousands) | **310,050** | 310,050 |
| Less: Treasury shares (thousands) | **(9,400)** | (9,400) |
| Less: Employees' share-based payment scheme (thousands) | **(1,750)** | (1,750) |
| | **298,900** | 298,900 |
| Earnings per share (AED) | **0.02** | 0.04 |

## 8 Cash and cash equivalents

| | **(Unaudited)** | (Audited) |
|---|---|---|
| | **31 March 2019** | 31 December 2018 |
| | **AED'000** | AED'000 |
| **Cash balances** | | |
| Cash on hand | **11,870** | 11,599 |
| Restricted cash balances* | **6,000** | 6,000 |
| | **17,870** | 17,599 |
| **Due from banks with original maturities of less than three months** | | |
| Placements with banks | **206,016** | 201,001 |
| Call accounts | **309,875** | 167,264 |
| Current and demand accounts | **117,499** | 132,553 |
| Balance with UAE Central Bank | **153,659** | 11,745 |
| | **787,049** | 512,563 |
| Due to banks and other financial institutions with original maturity of less than three months | **(23,833)** | (15,014) |
| Other restricted cash balances* | **(6,000)** | (6,000) |
| **Net cash and cash equivalents** | **775,086** | 509,148 |

* Restricted cash represents deposits with insurance authority amounting to AED 6,000 thousand (2018: AED 6,000 thousand).

## 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 |
|---|---|---|---|---|
| **31 March 2019** (Unaudited) | | | | |
| Equity instruments: | | | | |
| - Quoted | **474,310** | **96,499** | - | **570,809** |
| - Unquoted | **79,999** | - | - | **79,999** |
| Debt instruments: | | | | |
| - Unquoted | - | - | **1,837** | **1,837** |
| Unquoted investment in managed funds | **6,149** | - | - | **6,149** |
| | **560,458** | **96,499** | **1,837** | **658,794** |
| Within UAE | **356,216** | **96,499** | - | **452,715** |
| Outside UAE | **204,242** | - | **1,837** | **206,079** |
| | **560,458** | **96,499** | **1,837** | **658,794** |
| **31 December 2018** (Audited) | | | | |
| Equity instruments: | | | | |
| - Quoted | 454,925 | 161,384 | - | 616,309 |
| - Unquoted | 99,317 | - | - | 99,317 |
| Debt instruments: | | | | |
| - Unquoted investments | - | - | 1,837 | 1,837 |
| Unquoted investment in managed funds | 6,336 | - | - | 6,336 |
| | 560,578 | 161,384 | 1,837 | 723,799 |
| Within UAE | 360,354 | 161,384 | - | 521,738 |
| Outside UAE | 200,224 | - | 1,837 | 202,061 |
| | 560,578 | 161,384 | 1,837 | 723,799 |

The fair value of investments carried at amortised cost at 31 March 2019 is AED 1,837 thousand (2018: AED 1,837 thousand).

# Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

## 10 Loans and advances

| | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| Commercial loans | **2,029,201** | 2,102,120 |
| Retail finance | **543,010** | 550,029 |
| Gross loans and advances | **2,572,211** | 2,652,149 |
| Less: Allowance for impairment | **(370,201)** | (351,645) |
| Loans and advances | **2,202,010** | 2,300,504 |

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

| | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| At 1 January | **351,645** | 214,584 |
| Changes on initial application of IFRS 9 | **-** | 61,877 |
| **Restated balance at 1 January 2018** | **351,645** | 276,461 |
| Impairment charges for the period/year | **18,556** | 75,848 |
| Reversal of no longer required impairment charges | **-** | (664) |
| **At 31 March/31 December** | **370,201** | 351,645 |

The allowance for impairment includes a specific provision of AED 335.5 million for stage 3 loans of the Group.

## 11 Islamic financing and investing assets

| | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| Commodity Murabaha | **110,409** | 115,530 |
| Covered card and drawings | **61,264** | 67,503 |
| Purchase and lease back | **1,874** | 2,094 |
| Ijarah | **12,748** | 14,284 |
| Others | **2,971** | 2,944 |
| Gross islamic financing and investing assets | **189,266** | 202,355 |
| Less: Allowance for impairment | **(61,544)** | (59,741) |
| **Islamic financing and investing assets** | **127,722** | 142,614 |

### 11 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:

| | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| At 1 January | **59,741** | 50,944 |
| Changes on initial application of IFRS 9 | **-** | 4,484 |
| **Restated balance at 1 January 2018** | **59,741** | 55,428 |
| Charge for the year | **1,803** | 4,313 |
| **At 31 March/31 December** | **61,544** | 59,741 |

The Allowance for impairment include an specific provision of AED 58.4 million for stage 3 Islamic financing and investing assets of the Group.

### 12 Customers' deposits and margin accounts

| | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| Call and demand deposits | **328,095** | 219,765 |
| Time deposits | **1,851,252** | 1,785,555 |
| Wakala deposits | **35,545** | 35,045 |
| | **2,214,892** | 2,040,365 |
| Margin accounts | **658,543** | 706,910 |
| | **2,873,435** | 2,747,275 |

Analysis of customers' deposits by sector is as follows:

| | | |
|---|---|---|
| *By type:* | | |
| Government | **1,001,770** | 976,732 |
| Corporate | **1,871,665** | 1,770,543 |
| | **2,873,435** | 2,747,275 |

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 4.5% p.a (2018: Nil to 4.5% p.a)

## 13 Share capital

| | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| 310.1 million shares (2018: 310.1 million shares) of AED 1 each (2018: AED 1 each) | **310,050** | 310,050 |

## 14 Treasury shares

Treasury shares represent the cost of 9,400 thousand shares of the Company held by the Company and a subsidiary as at 31 March 2019 (2018: 9,400 thousand shares).

## 15 Employees' share-based payment scheme

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

During the period, no shares were granted to employees and the value of outstanding shares not yet granted to employees as at 31 March 2019 were AED 1,750 thousand (2018: AED 1,750 thousand).

## 16 Commitments and contingent liabilities

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

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

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

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

| | (Unaudited) 31 March 2019 AED'000 | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| Letters of credit | **77,684** | 169,522 |
| Letters of guarantee | **1,323,961** | 1,370,280 |
| Capital commitments | **4,200** | 4,200 |
| | **1,405,845** | 1,544,002 |

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

## 17 Tier 1 Capital Instruments

In July 2015, the Company raised financing by way of Shari'a compliant Tier 1 Capital Certificates amounting to AED 300 million (Tier 1 Sukuk). Issuance of these Capital Certificates was approved by the Company's Extra Ordinary General Meeting (EGM) in April 2015. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Certificates bear profit at a fixed rate payable semi-annually in arrears. The Capital Certificates are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Company subject to certain conditions. Tier 1 Sukuk amounting to AED 18,500 thousand (2017: AED 16,450 thousand) are held by subsidiaries of the Group and, accordingly, eliminated in the consolidated statement of financial position. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon profit rate of 7.5% p.a.

In March 2019 the subsidiary of the company 'Insurance house' raised tier 1 perpetual bonds amounting to AED 15 Million. Issuance of these perpetual bonds was approved by the Company's Extra Ordinary General Meeting (EGM) in January 2019. These perpetual bonds bear profit at a fixed rate payable semi-annually in arrears. The perpetual bonds are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Company subject to certain conditions. The payment of the coupon amounts on those instruments is solely at the discretion of the issuer at a coupon profit rate of 8.25% p.a.

## 18 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:

| | **(Unaudited) 31 March 2019 AED'000** | (Audited) 31 December 2018 AED'000 |
|---|---|---|
| **Loans and advances to customers** | | |
| To key management staff | **866** | 973 |
| To members of board of directors | **38,108** | 38,103 |
| **Customers' deposits** | | |
| From others | **11,000** | 11,527 |

### 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.

## 18 Related party disclosures *(continued)*

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

| | For the three months ended 31 March (Unaudited) 2019 AED'000 | (Unaudited) 2018 AED'000 |
|---|---|---|
| **Interest and commission income** | | |
| From key management staff | **11** | 12 |
| From members of board of directors | **597** | 143 |
| **Interest expense** | | |
| To others | **73** | 32 |
| **Key management remuneration** | | |
| Short term benefits (salaries, benefits and bonuses) | **4,852** | 5,764 |

## 19 Segment information

For management purposes, the Group is organized 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:

## 19 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 |
|---|---|---|---|---|---|---|---|
| **31 March 2019** | | | | | | | |
| Operating income | **24,401** | **18,740** | **5,141** | **1,697** | **19,676** | - | **69,655** |
| Inter-segment revenues | **30,756** | **(30,756)** | - | - | - | - | - |
| Segmental results and profit (loss) from operations | **6,719** | **19,735** | **1,661** | **(168)** | **5,350** | **(17,790)** | **15,507** |
| Segmental assets | **2,105,675** | **1,448,385** | **184,293** | **175,681** | **363,750** | - | **4,277,784** |
| Segmental liabilities | **2,098,956** | **944,115** | **98,663** | **94,648** | **241,634** | - | **3,478,016** |
| **31 March 2018** | | | | | | | |
| Operating income | 23,029 | 27,050 | 6,181 | 2,154 | 15,105 | - | 73,519 |
| Inter-segment revenues | 29,933 | (29,933) | - | - | - | - | - |
| Segmental results and profit (loss) from operations | 6,340 | 23,212 | 1,016 | 77 | 3,861 | (13,580) | 20,926 |
| Segmental assets | 2,140,073 | 1,462,379 | 206,499 | 203,276 | 289,815 | - | 4,302,042 |
| Segmental liabilities | 2,133,733 | 895,408 | 127,579 | 123,936 | 194,800 | - | 3,475,456 |
| **31 December 2018** | | | | | | | |
| Segmental assets | 2,317,670 | 1,114,750 | 182,763 | 175,117 | 304,468 | - | 4,094,768 |
| Segmental liabilities | 2,288,655 | 640,593 | 98,791 | 93,916 | 204,640 | - | 3,326,595 |

## 20 Fair value measurement

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 March 2019:

| | Date of valuation | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Assets measured at fair value** | | | | | |
| Investment properties | 31 December 2018 | - | - | 4,478 | 4,478 |
| **At fair value through profit or loss** | | | | | |
| Quoted equities | 31 March 2019 | 96,499 | - | - | 96,499 |
| | | 96,499 | - | - | 96,499 |
| **At fair value through other comprehensive income** | | | | | |
| Quoted equities | 31 March 2019 | 474,310 | - | - | 474,310 |
| Unquoted equities | 31 March 2019 | - | 12,243 | 67,756 | 79,999 |
| Investment in managed funds | 31 December 2018 | - | 6,149 | - | 6,149 |
| | | 474,310 | 18,392 | 67,756 | 560,458 |

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Notes to the condensed consolidated interim financial statements

## 20 Fair value measurement *(continued)*

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

| | Date of Valuation | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Assets measured at fair value** | | | | | |
| Investment properties | 31 December 2018 | - | - | 79,478 | 79,478 |
| **At fair value through profit or loss** | | | | | |
| Quoted equities | 31 December 2018 | 161,384 | - | - | 161,384 |
| | | 161,384 | - | - | 161,384 |
| **At fair value through other comprehensive income** | | | | | |
| Quoted equities | 31 December 2018 | 454,925 | - | - | 454,925 |
| Unquoted equities | 31 December 2018 | - | 12,036 | 87,281 | 99,317 |
| Investment in managed funds | 31 December 2018 | - | 6,336 | - | 6,336 |
| | | 454,925 | 18,372 | 87,281 | 560,578 |
| **Assets for which fair value is disclosed** | | | | | |
| Investment carried at amortised cost | | - | 1,837 | - | 1,837 |

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.

## 20 Fair value measurement *(continued)*

**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.

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

**Transfers between categories**

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (2018: None).

## 21 Legal proceedings

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

## 22 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.