

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

Condensed consolidated interim financial statements

**30 June 2019**

**Principal business address:**

P O Box 7878  
Abu Dhabi  
United Arab Emirates

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

### Condensed consolidated interim financial statements

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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 30 June 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 30 June 2019;
- the condensed consolidated interim statement of comprehensive income for the three-month and six-month periods ended 30 June 2019;
- the condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2019;
- the condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2019; and
- notes to the condensed consolidated 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.



*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

*Other matter*

The condensed consolidated interim financial information for the six-month period ended 30 June 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 six-month period ended 30 June 2018 on 31 July 2018 and an unmodified opinion on the consolidated financial statements for the year ended 31 December 2018 on 13 February 2019.

*KPMG Lower Gulf Limited*

Emilio Pera  
Registration No: 1146  
Abu Dhabi, United Arab Emirates  
Date: 30 JUL 2019

# Finance House P.J.S.C.

## Condensed consolidated interim statement of financial position

As at

		<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
<b>Assets</b>			
Cash balances	8	16,898	17,599
Due from banks	8	669,480	512,563
Investments carried at fair value through other comprehensive income	9	504,449	560,578
Investments carried at fair value through profit or loss	9	80,668	161,384
Investments carried at amortised cost	9	1,837	1,837
Loans and advances	10	2,207,470	2,300,504
Islamic financing and investing assets	11	114,992	142,614
Investment in associates		91,354	50,485
Interest receivable and other assets		292,299	236,489
Property, fixtures and equipment		94,951	24,532
Intangibles		6,705	6,705
Investment properties		4,478	79,478
<b>Total assets</b>		<b>4,085,581</b>	<b>4,094,768</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Customers' deposits and margin accounts	12	2,721,490	2,747,275
Due to banks and other financial institutions	8	12,402	15,014
Short term borrowings		23,100	27,600
Medium term loan		141,669	183,335
Interest payable and other liabilities		384,682	339,291
Provision for employees' end of service benefits		14,052	14,080
<b>Total liabilities</b>		<b>3,297,395</b>	<b>3,326,595</b>

# Finance House P.J.S.C.

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

As at

		<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
<b>Equity</b>			
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		(55,824)	(44,690)
Retained earnings		31,677	20,146
Tier 1 Sukuk	17	281,500	281,500
Tier 1 Bonds	17	15,000	-
Proposed directors' remuneration		-	1,064
		<hr/>	<hr/>
Non-controlling interests		706,618 81,568	692,285 75,888
<b>Total equity</b>		<hr/> <b>788,186</b> <hr/>	<hr/> <b>768,173</b> <hr/>
<b>Total liabilities and equity</b>		<hr/> <b>4,085,581</b> <hr/>	<hr/> <b>4,094,768</b> <hr/>
<b>Commitments and contingent liabilities</b>	16	<hr/> <b>1,287,833</b> <hr/>	<hr/> <b>1,544,002</b> <hr/>

These condensed consolidated interim financial statements were authorized and approved for issue by the Board of Directors on 30 JUL 2019 and signed on their behalf by:

Mr. Mohammed Alqubaisi  
Chairman

Mr. T.K. Raman  
Group Chief Financial Officer

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 (unaudited)

	Note	For the six-months ended 30 June		For the three-months ended 30 June	
		2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Interest income and income from Islamic financing and investing assets	5	124,335	131,159	62,208	66,771
Interest expense and profit distributable to depositors	5	(43,525)	(38,790)	(21,552)	(19,972)
<b>Net interest income and income from Islamic financing and investing assets</b>		<b>80,810</b>	92,369	<b>40,656</b>	46,799
Net income from perpetual instruments		8,434	9,085	3,815	4,167
<b>Net interest income, income from Islamic financing and investing assets and net income from perpetual instruments</b>		<b>89,244</b>	<b>101,454</b>	<b>44,471</b>	50,966
Fee and commission income		28,566	34,342	14,162	17,065
Fee and commission expenses		(5,076)	(9,742)	(2,815)	(5,910)
<b>Net fee and commission income</b>		<b>23,490</b>	24,600	<b>11,347</b>	11,155
Net investment income / (loss)	6	13,404	10,659	3,071	(3,520)
Credit impairment loss on loans and advances	10	(35,754)	(38,411)	(17,198)	(15,933)
Credit impairment loss on Islamic financing and investing assets	11	-	(4,125)	1,803	(2,477)
Net insurance income		31,782	30,242	14,106	17,441
Other operating income		9,726	8,691	5,204	2,289
<b>Net operating income</b>		<b>131,892</b>	133,110	<b>62,804</b>	59,921
Salaries and employees related expenses		(69,373)	(73,213)	(35,088)	(37,502)
Depreciation of property, fixtures and equipment		(5,510)	(4,017)	(2,846)	(2,014)
Amortisation of intangibles		-	(261)	-	(65)
General and administrative expenses		(36,030)	(35,152)	(18,831)	(20,469)
<b>Operating profit / (loss) for the period</b>		<b>20,979</b>	20,467	<b>6,039</b>	(129)
Share of profit / (loss) from associates		894	(112)	327	(442)
<b>Profit / (Loss) for the period</b>		<b>21,873</b>	20,355	<b>6,366</b>	(571)
<b>Attributable to:</b>					
Equity holders of the parent		17,573	16,643	4,951	(2,142)
Non-controlling interests		4,300	3,712	1,415	1,571
		<b>21,873</b>	20,355	<b>6,366</b>	(571)
Basic and diluted earnings per share attributable to ordinary shares (AED)	7	0.02	0.02	(0.00)	(0.03)

# Finance House P.J.S.C.

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

For the six-months period ended 30 June (Unaudited)

	For the six-months ended 30 June		For the three-months ended 30 June	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Profit / (Loss) for the period	21,873	20,355	6,366	(571)
<b>Other comprehensive income / (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	4,671	(20,093)	(2,307)	(15,609)
Directors' remuneration	(1,064)	(3,090)	(1,064)	-
<b>Other comprehensive income / (loss) for the period</b>	<b>3,607</b>	<b>(23,183)</b>	<b>(3,371)</b>	<b>(15,609)</b>
<b>Total comprehensive income / (loss) for the period</b>	<b>25,480</b>	<b>(2,828)</b>	<b>2,995</b>	<b>(16,180)</b>
<b>Attributable to:</b>				
Equity holders of the parent	19,800	(5,622)	1,287	(16,990)
Non-controlling interests	5,680	2,794	1,708	810
	<b>25,480</b>	<b>(2,828)</b>	<b>2,995</b>	<b>(16,180)</b>

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 six-months period ended 30 June 2019 (Unaudited)

	Employees' share-based			Statutory reserve	Fair value reserve	Retained earnings	Proposed directors' remuneration	Tier 1 Sukuk	Attributable to shareholders		Total
	Treasury shares	Special reserve	Share Capital						parent of the company	Non controlling interest	
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2018	(21,402)	(1,750)	310,050	146,185	(6,305)	117,349	3,090	283,550	830,767	72,432	903,199
Changes on initial application of IFRS 9	-	-	-	-	-	(66,361)	-	-	(66,361)	-	(66,361)
<b>Restated balance at 1 January 2018</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>310,050</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)	-	(3,090)	-	(19,175)	(918)	(20,093)
Directors remuneration	-	-	-	-	-	-	(3,090)	-	(3,090)	-	(3,090)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19,175)</b>	<b>16,643</b>	<b>(3,090)</b>	<b>-</b>	<b>(5,622)</b>	<b>2,794</b>	<b>(2,828)</b>
Profits on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	1,345	(1,345)	-	-	-	97	97
Dividend	-	-	-	-	-	(15,141)	-	-	(15,141)	-	(15,141)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	(1,388)	(1,388)
Movement in Tier 1 SUKUK	-	-	-	-	-	-	-	(1,050)	(1,050)	-	(1,050)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(11,250)	-	-	(11,250)	-	(11,250)
<b>Balance at 30 June 2018</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>310,050</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>
<b>Balance at 1 January 2019</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>310,050</b>	<b>147,367</b>	<b>(44,690)</b>	<b>20,146</b>	<b>1,064</b>	<b>281,500</b>	<b>692,285</b>	<b>75,888</b>	<b>768,173</b>
Profit for the period	-	-	-	-	-	17,573	-	-	17,573	4,300	21,873
Net change in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(11,134)	14,425	(1,064)	-	3,291	1380	4,671
Directors remuneration paid	-	-	-	-	-	-	(1,064)	-	(1,064)	-	(1,064)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,134)</b>	<b>31,998</b>	<b>(1,064)</b>	<b>-</b>	<b>19,800</b>	<b>5,680</b>	<b>25,480</b>
Dividend	-	-	-	-	-	(8,873)	-	-	(8,873)	-	(8,873)
Movement in Tier 1 SUKUK	-	-	-	-	-	-	-	15,000	15,000	-	15,000
Tier 1 SUKUK coupon paid	-	-	-	-	-	(11,594)	-	-	(11,594)	-	(11,594)
<b>Balance at 30 June 2019</b>	<b>(21,402)</b>	<b>(1,750)</b>	<b>310,050</b>	<b>147,367</b>	<b>(55,824)</b>	<b>31,677</b>	<b>-</b>	<b>296,500</b>	<b>706,618</b>	<b>81,568</b>	<b>788,186</b>

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 cash flows

For the six-months period ended 30 June (Unaudited)

	2019	2018
Note	AED'000	AED'000
<b>Cash flows from operating activities</b>		
Profit for the period	21,873	20,355
<i>Adjustments for:</i>		
Depreciation of property, fixtures and equipment	5,510	4,017
Amortisation of intangible asset	-	261
Share of result of associate	(894)	112
Dividend income from investments	(21,510)	(26,838)
Loss on disposal of investments carried at fair value through profit or loss	21,847	(2,067)
Change in fair value of investments carried at fair value through profit or loss	(13,741)	18,247
Credit impairment loss of loans and advances	35,754	38,411
Credit impairment loss of islamic financing and investing assets	-	4,125
Provision for employees' end of service benefits	1,745	1,877
	<u>50,584</u>	<u>58,500</u>
<i>Changes in:</i>		
Islamic financing and investing assets	27,622	3,168
Loans and advances	57,280	(138,756)
Interest receivable and other assets	(55,810)	(84,517)
Customers' deposits and margin accounts	(25,785)	(9,846)
Interest payable and other liabilities	45,391	78,851
Directors' remuneration paid	(1,064)	(3,090)
	<u>98,218</u>	<u>(92,600)</u>
<b>Cash generated from / (used in) operating activities</b>	<b>98,218</b>	<b>(92,600)</b>
Employees' end of service benefits paid	(1,773)	(1,334)
	<u>96,445</u>	<u>(97,024)</u>
<b>Net cash generated from / (used in) operating activities</b>	<b>96,445</b>	<b>(97,024)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments carried at fair value through other comprehensive income	(16,410)	(69,069)
Proceeds from sale of investments carried at fair value through other comprehensive income	77,210	157,581
Purchase of investments carried at fair value through profit or loss	-	(118,464)
Proceeds from sale of investments carried at fair value through profit or loss	72,610	86,361
Proceeds from sale of investments carried at amortised cost	-	27,241
Purchase of property, fixtures and equipment	(929)	(5,276)
Purchase/transfer of investments in associates	(39,975)	-
Dividend received	21,510	26,838
	<u>114,016</u>	<u>105,212</u>
<b>Net cash from investing activities</b>	<b>114,016</b>	<b>105,212</b>

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

For the six-months period ended 30 June (Unaudited)

	Note	2019 AED'000	2018 AED'000
<b>Cash flows from financing activities</b>			
Repayments of short term borrowings		(46,166)	(119,410)
Medium term loan		-	108,334
Movement in Tier 1 SUKUK		15,000	(1,050)
Tier 1 SUKUK coupon paid		(11,594)	(11,250)
Cash dividend paid		(8,873)	(15,141)
Change in non-controlling interest		-	(1,388)
<b>Net cash used in financing activities</b>		<b>(51,633)</b>	<b>(39,905)</b>
Net increase / (decrease) in cash and cash equivalents		<b>158,828</b>	<b>(31,717)</b>
Cash and cash equivalents at 1 January		<b>509,148</b>	<b>688,638</b>
<b>Cash and cash equivalents at 30 June</b>	8	<b>667,976</b>	<b>656,921</b>

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

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# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 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.

Central Bank of the UAE Finance Companies Regulation circular no. 112/2018 issued on 24 April 2018 is applicable to the Group and came into effect on 24 May 2018. The Group is currently assessing and evaluating the relevant provisions of the Finance Companies Regulation. On 24 October 2018, management submitted an adjustment plan for restructuring the Group, to the Central Bank of UAE. The adjustment plan has been approved by the Board of Directors on the 12<sup>th</sup> of December 2018 and is subject to the Central Bank approval to come to effect.

The financial statements of the Company as at and for the period ending 30 June 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.

### 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 30 June 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)*

#### **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) 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

#### 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
		30 June 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

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

#### b) As a lessee *(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

#### *i. 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 period ended 30 June 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 4 Financial risk management (continued)

#### i. 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)

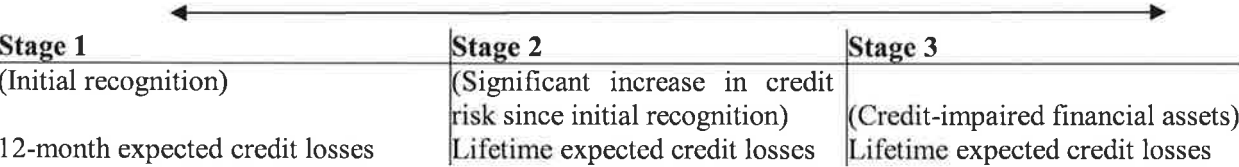
#### i. Credit risk (continued)

#### (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



#### 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).

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

#### *i. 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 4 Financial risk management (continued)

#### i. 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

#### i. 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 4 Financial risk management (continued)

#### i. 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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

#### *i. 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.

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.



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

Notes to the condensed consolidated interim financial statements

### 4 Financial risk management (continued)

#### i. Credit risk (continued)

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

	As at 30 June 2019				31 December 2018 Total AED'000
	Stage 1	ECL staging Stage 2	Stage 3	Total	
Credit risk exposures	12-month ECL AED'000	Lifetime ECL AED'000	Lifetime ECL AED'000	ECL AED'000	AED'000
<i>Loans and advances – At amortised cost</i>	1,787,652	280,051	527,166	2,594,869	2,652,149
Loss allowance	(17,238)	(16,292)	(353,869)	(387,399)	(351,645)
<b>Carrying amount</b>	<b>1,770,414</b>	<b>263,759</b>	<b>173,297</b>	<b>2,207,470</b>	<b>2,300,504</b>
<i>Islamic financing and investing assets – At amortised cost</i>	101,148	4,530	69,055	174,733	202,355
Loss allowance	(1,271)	(920)	(57,550)	(59,741)	(59,741)
<b>Carrying amount</b>	<b>99,877</b>	<b>3,610</b>	<b>11,505</b>	<b>114,992</b>	<b>142,614</b>

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

### Notes to the condensed consolidated interim financial statements

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

	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	Six months ended		Three months	
	30 June		ended 30 June	
	2019	2018	2019	2018
	AED'000	AED'000	AED'000	AED'000
Loans and advances	110,761	114,156	56,171	57,876
Income from Islamic financing and investing assets	5,182	9,198	938	4,759
Due from banks	8,206	6,316	5,099	3,197
Others	186	1,489	-	939
<b>Interest income and income from Islamic financing and investing assets</b>	<b>124,335</b>	<b>131,159</b>	<b>62,208</b>	<b>66,771</b>
Customers' deposits and margin accounts	(37,332)	(29,701)	(18,620)	(15,373)
Due to banks and other financial institutions	(5,407)	(8,073)	(2,559)	(4,096)
Profit distributable to depositors	(786)	(1,016)	(373)	(503)
<b>Interest expense and profit distributable to depositors</b>	<b>(43,525)</b>	<b>(38,790)</b>	<b>(21,552)</b>	<b>(19,972)</b>
<b>Net interest income and income from Islamic financing and investing assets</b>	<b>80,810</b>	<b>92,369</b>	<b>40,656</b>	<b>46,799</b>

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

#### 6 Net investment income

	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	Six months ended		Three months	
	30 June		ended 30 June	
	2019	2018	2019	2018
	AED'000	AED'000	AED'000	AED'000
(Loss)/profit on disposal of investments carried at fair value through profit or loss	(21,847)	2,068	(3,518)	2,589
Change in fair value of investments carried at fair value through profit or loss	13,741	(18,247)	1,692	(10,860)
Dividends from investments carried at fair value through profit or loss	2,891	8,113	348	1,119
Net loss from investments carried at fair value through profit or loss	(5,215)	(8,066)	(1,478)	(7,152)
Dividend income from investments carried at fair value through other comprehensive income	18,619	18,725	4,549	3,632
<b>Net income/(loss) from investments</b>	<b>13,404</b>	<b>10,659</b>	<b>3,071</b>	<b>(3,520)</b>

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 7 Basic and diluted earnings per share

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

	<i>(Unaudited)</i> Six months ended 30 June		<i>(Unaudited)</i> Three months ended 30 June	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Profit / (loss) for the period attributable to equity holders of the parent	17,573	16,643	4,951	(2,142)
Less: Tier 1 Sukuk coupon paid	(11,250)	(11,250)	(5,625)	(5,625)
	<u>6,323</u>	<u>5,393</u>	<u>(674)</u>	<u>(7,767)</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>0.02</u>	<u>0.02</u>	<u>(0.00)</u>	<u>(0.03)</u>

### 8 Cash and cash equivalents

	<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
<b>Cash balances</b>		
Cash on hand	10,898	11,599
Restricted cash balances*	6,000	6,000
	<u>16,898</u>	<u>17,599</u>
<b>Due from banks with original maturities of less than three months</b>		
Placements with banks	281,016	201,001
Call accounts	234,745	167,264
Current and demand accounts	125,139	132,553
Balance with UAE Central Bank	28,580	11,745
	<u>669,480</u>	<u>512,563</u>
Due to banks and other financial institutions with original maturity of less than three months	(12,402)	(15,014)
Other restricted cash balances*	(6,000)	(6,000)
<b>Net cash and cash equivalents</b>	<u>667,976</u>	<u>509,148</u>

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

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 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 2019 (Unaudited)</b>				
Equity instruments:				
- Quoted	418,463	80,668	-	499,131
- Unquoted	80,160	-	-	80,160
Debt instruments:				
- Unquoted	-	-	1,837	1,837
Unquoted investment in managed funds	5,826	-	-	5,826
	<u>504,449</u>	<u>80,668</u>	<u>1,837</u>	<u>586,954</u>
Within UAE	348,952	80,668	-	429,620
Outside UAE	155,497	-	1,837	157,334
	<u>504,449</u>	<u>80,668</u>	<u>1,837</u>	<u>586,954</u>
<b>31 December 2018 (Audited)</b>				
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
	<u>560,578</u>	<u>161,384</u>	<u>1,837</u>	<u>723,799</u>
Within UAE	360,354	161,384	-	521,738
Outside UAE	200,224	-	1,837	202,061
	<u>560,578</u>	<u>161,384</u>	<u>1,837</u>	<u>723,799</u>

The fair value of investments carried at amortised cost at 30 June 2019 is AED1,837 thousand (2018: AED 1,837 thousand).

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

### Notes to the condensed consolidated interim financial statements

#### 10 Loans and advances

	<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
Commercial loans	2,062,951	2,102,120
Retail finance	531,918	550,029
	<hr/>	<hr/>
Gross loans and advances	2,594,869	2,652,149
Less: Allowance for impairment	(387,399)	(351,645)
	<hr/>	<hr/>
Loans and advances	<u>2,207,470</u>	<u>2,300,504</u>

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

	<i>(Unaudited)</i> AED'000	<i>(Audited)</i> AED'000
At 1 January 2019 / 2018	351,645	214,584
Changes on initial application of IFRS 9	-	61,877
	<hr/>	<hr/>
<b>Restated balance at 1 January 2019 / 2018</b>	<b>351,645</b>	<b>276,461</b>
Impairment charges for the period/year	35,754	75,848
Reversal of no longer required impairment charges	-	(664)
	<hr/>	<hr/>
<b>At 30 June 2019 / 31 December 2018</b>	<b><u>387,399</u></b>	<b><u>351,645</u></b>

The allowance for impairment includes a specific provision of AED 353.9 million for stage 3 loans of the Group.

#### 11 Islamic financing and investing assets

	<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
Commodity Murabaha	104,740	115,530
Covered card and drawings	53,517	67,503
Purchase and lease back	1,707	2,094
Ijarah	11,836	14,284
Others	2,933	2,944
	<hr/>	<hr/>
Gross islamic financing and investing assets	174,733	202,355
	<hr/>	<hr/>
Less: Allowance for impairment	(59,741)	(59,741)
	<hr/>	<hr/>
<b>Islamic financing and investing assets</b>	<b><u>114,992</u></b>	<b><u>142,614</u></b>

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 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:

	<i>(Unaudited)</i> AED'000	<i>(Audited)</i> AED'000
At 1 January 2019 / 2018	59,741	50,944
Changes on initial application of IFRS 9	-	4,484
<b>Restated balance at 1 January 2019 / 2018</b>	<b>59,741</b>	<b>55,428</b>
Charge for the year	-	4,313
<b>At 30 June 2019 / 31 December 2018</b>	<b>59,741</b>	<b>59,741</b>

The Allowance for impairment include an specific provision of AED 57.5 million for stage 3 Islamic financing and investing assets of the Group.

### 12 Customers' deposits and margin accounts

	<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
Call and demand deposits	266,947	219,765
Time deposits	1,825,591	1,785,555
Wakala deposits	30,028	35,045
	<b>2,122,566</b>	<b>2,040,365</b>
Margin accounts	598,924	706,910
	<b>2,721,490</b>	<b>2,747,275</b>
Analysis of customers' deposits by sector is as follows:		
Government	1,103,531	976,732
Corporate	1,617,959	1,770,543
	<b>2,721,490</b>	<b>2,747,275</b>

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 4.25% p.a (2018: Nil to 4.5% p.a)

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 13 Share capital

	<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
310.1 million shares (2018: 310.1 million shares) of AED 1 each (2018: AED 1 each)	<b>310,050</b>	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 30 June 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 30 June 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:

	<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
Letters of credit	40,767	169,522
Letters of guarantee	1,242,866	1,370,280
Capital commitments	4,200	4,200
	<b>1,287,833</b>	1,544,002

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

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

### Notes to the condensed consolidated interim financial statements

#### 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 a subsidiary of the company 'Insurance house P.S.C.' issued 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:

	<i>(Unaudited)</i> 30 June 2019 AED'000	<i>(Audited)</i> 31 December 2018 AED'000
<b>Loans and advances to customers</b>		
To key management staff	1,037	973
To members of board of directors	33,361	38,103
<b>Customers' deposits</b>		
From others	12,079	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.



# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

### 18 Related party disclosures *(continued)*

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

	<i>(Unaudited)</i>	
	For the six months period ended 30 June	
	2019	2018
	AED'000	AED'000
<b>Interest and commission income</b>		
From key management staff	23	15
From members of board of directors	800	405
<b>Interest expense</b>		
To others	151	68
<b>Key management remuneration</b>		
Short term benefits (salaries, benefits and bonuses)	11,228	11,664

### 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:

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

Notes to the condensed consolidated interim financial statements

### 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
<b>30 June 2019</b>							
Operating income	51,412	31,306	9,078	3,363	36,733	-	131,892
Inter-segment revenues	44,026	(44,026)	-	-	-	-	-
Segmental results and profit / (loss) from operations	14,651	30,124	6,073	(377)	8,045	(36,643)	21,873
Segmental assets	2,127,631	1,247,121	178,228	165,448	367,153	-	4,085,581
Segmental liabilities	2,112,980	769,482	88,005	84,624	242,304	-	3,297,395
<b>30 June 2018</b>							
Operating income	50,214	32,923	11,805	4,349	33,819	-	133,110
Inter-segment revenues	41,959	(41,959)	-	-	-	-	-
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>31 December 2018</b>							
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

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

### Notes to the condensed consolidated interim financial statements

#### 20 Fair value measurement

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 30 June 2019:

	<b>Date of valuation</b>	<b>Level 1 AED'000</b>	<b>Level 2 AED'000</b>	<b>Level 3 AED'000</b>	<b>Total AED'000</b>
<b>Assets measured at fair value</b>					
Investment properties	31 December 2018	-	-	4,478	4,478
<b>At fair value through profit or loss</b>					
Quoted equities	30 June 2019	80,668	-	-	80,668
		80,668	-	-	80,668
<b>At fair value through other comprehensive income</b>					
Quoted equities	30 June 2019	418,463	-	-	418,463
Unquoted equities	30 June 2019	-	12,404	67,756	80,160
Investment in managed funds	31 December 2018	-	5,826	-	5,826
		418,463	18,230	67,756	504,449

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

### 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
<b>Assets measured at fair value</b>					
Investment properties	31 December 2018	-	-	79,478	79,478
		<hr/>	<hr/>	<hr/>	<hr/>
<b>At fair value through profit or loss</b>					
Quoted equities	31 December 2018	161,384	-	-	161,384
		<hr/>	<hr/>	<hr/>	<hr/>
		161,384	-	-	161,384
		<hr/>	<hr/>	<hr/>	<hr/>
<b>At fair value through other comprehensive income</b>					
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
		<hr/>	<hr/>	<hr/>	<hr/>
		454,925	18,372	87,281	560,578
		<hr/>	<hr/>	<hr/>	<hr/>

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.

# Finance House P.J.S.C.

## Notes to the condensed consolidated interim financial statements

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

#### Investments carried at fair value through other comprehensive income *(continued)*

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</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 4 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.