

Finance House P.J.S.C.

**Condensed consolidated interim
financial statements**

30 September 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 Condensed Consolidated Interim Financial Statements

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

Introduction

We have reviewed the accompanying 30 September 2019 condensed consolidated interim financial statements 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 September 2019;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three and nine-month periods ended 30 September 2019;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2019;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2019; and
- notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements 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 statements 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 September 2019 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other matter

The condensed consolidated interim financial statements for the nine-month period ended 30 September 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 statements for the nine-month period ended 30 September 2018 on 04 November 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

Fawzi AbuRass
Registration No: 968
Abu Dhabi, United Arab Emirates
Date: **06 NOV 2019**

Finance House P.J.S.C.

Condensed consolidated interim statement of financial position

as at

		(Unaudited) 30 September 2019 AED'000	(Audited) 31 December 2018 AED'000
Assets			
Cash balances	8, 23	18,138	17,599
Due from banks	8	638,533	512,179
Investments carried at fair value through other comprehensive income	9	363,884	560,578
Investments carried at fair value through profit or loss	9	78,857	161,384
Investments carried at amortised cost	9	1,837	1,837
Loans and advances	10	2,337,143	2,300,504
Islamic financing and investing assets	11	103,310	142,614
Investment in associates		90,716	50,485
Interest receivable and other assets		236,699	236,489
Property, fixtures and equipment		92,930	24,532
Intangibles		6,705	6,705
Investment properties		4,478	79,478
Total assets		3,973,230	4,094,384
Liabilities and Equity			
Liabilities			
Customers' deposits and margin accounts	12, 23	2,640,606	2,746,891
Due to banks and other financial institutions	8	26,464	15,014
Short term borrowings		3,100	27,600
Medium term loan		133,336	183,335
Interest payable and other liabilities		368,456	339,291
Provision for employees' end of service benefits		14,238	14,080
Total liabilities		3,186,200	3,326,211

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Finance House P.J.S.C.

Condensed consolidated interim statement of financial position *(continued)* as at

		(Unaudited) 30 September 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		(55,761)	(44,690)
Retained earnings		29,602	20,146
Tier 1 Sukuk	17	280,400	281,500
Tier 1 Bonds	17	15,000	-
Proposed directors' remuneration		-	1,064
		<u>703,506</u>	<u>692,285</u>
Non-controlling interests		83,524	75,888
Total equity		<u>787,030</u>	<u>768,173</u>
Total liabilities and equity		<u>3,973,230</u>	<u>4,094,384</u>
Commitments and contingent liabilities	16	<u>1,211,325</u>	<u>1,544,002</u>

These condensed consolidated interim financial statements were authorized and approved for issue by the Board of Directors on 6th November 2019 and signed on their behalf by:

Mr. Mohammed Alqubaisi
Chairman

Mr. Hamid Taylor
General Manager

The notes on pages 10 to 40 are an integral part of this condensed consolidated interim financial statements.

Finance House P.J.S.C.

Condensed consolidated interim statement of profit or loss and other comprehensive income

(Unaudited)

	Note	For the nine-months ended 30 September		For the three-months ended 30 September	
		2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Interest income and income from Islamic financing and investing assets	5	185,691	195,981	61,356	64,822
Interest expense and profit distributable to depositors	5	(64,783)	(62,576)	(21,258)	(23,786)
Net interest income and income from Islamic financing and investing assets	5	120,908	133,405	40,098	41,036
Net income from perpetual investments		11,257	14,520	2,823	5,435
Net interest income, income from Islamic financing and investing assets and net income from perpetual instruments		132,165	147,925	42,921	46,471
Fee and commission income		40,514	52,954	11,948	18,612
Fee and commission expenses		(8,222)	(16,579)	(3,146)	(6,837)
Net fee and commission income		32,292	36,375	8,802	11,775
Net investment income	6	16,327	12,233	2,923	1,574
Credit impairment loss on loans and advances	10	(50,012)	(59,775)	(14,258)	(21,364)
Credit impairment loss on Islamic financing and investing assets	11	-	(3,118)	-	1,007
Net insurance income	23	41,467	37,206	9,685	6,964
Other operating income		16,463	17,491	6,737	8,800
Net operating income		188,702	188,337	56,810	55,227
Salaries and employees related expenses		(105,950)	(108,906)	(36,577)	(35,693)
Depreciation of property, fixtures and equipment		(8,286)	(6,108)	(2,776)	(2,091)
Amortisation of intangibles		-	(261)	-	-
General and administrative expenses	23	(48,646)	(46,799)	(12,616)	(11,647)
Operating profit for the period		25,820	26,263	4,841	5,796
Share of profit / (loss) from associates		256	(1,043)	(638)	(931)
Profit for the period		26,076	25,220	4,203	4,865

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Condensed consolidated interim statement of profit or loss and other comprehensive income (continued)

(Unaudited)

	Note	For the nine-months ended 30 September		For the three-months ended 30 September	
		2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Profit for the period		26,076	25,220	4,203	4,865
Other comprehensive income:					
Items that will not be reclassified to income statement:					
Gain / (loss) on changes in fair value of financial assets carried at fair value through other comprehensive income		6,346	(13,488)	1,675	6,605
Directors' remuneration		(1,064)	(3,090)	-	-
Other comprehensive income / (loss) for the period		5,282	(16,578)	1,675	6,605
Total comprehensive income / (loss) for the period		31,358	8,642	5,878	11,470
Profit attributable to:					
Equity holders of the parent		20,350	20,516	2,777	3,873
Non-controlling interests		5,726	4,704	1,426	992
		26,076	25,220	4,203	4,865
Total comprehensive income attributable to:					
Equity holders of the parent		23,722	4,397	3,922	10,019
Non-controlling interests		7,636	4,245	1,956	1,451
		31,358	8,642	5,878	11,470
Basic and diluted earnings per share attributable to ordinary shares (AED)	7	0.01	0.01	(0.01)	(0.01)

The notes on pages 10 to 40 are an integral part of this condensed consolidated interim financial statements.

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Finance House P.J.S.C.

Condensed consolidated interim statement of changes in equity for the nine-months period ended 30 September 2019 (Unaudited)

	Share Capital AED'000	Treasury shares AED'000	Employees' share-based payment scheme AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings remuneration AED'000	Proposed directors' AED'000	Tier 1 Sukuk AED'000	Tier 1 Bonds 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)	117,349 (66,361)	3,090	283,550	-	830,767 (66,361)	72,432	903,199 (66,361)
Changes on initial application of IFRS 9	-	-	-	-	-	-	-	-	-	-	-	-
Restated balance at 1 January 2018	310,050	(21,402)	(1,750)	146,185	(6,305)	50,988	3,090	283,550	-	764,406	72,432	836,838
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	1,530	(1,530)	-	-	-	-	93	93
Profit for the period	-	-	-	-	-	20,516	-	-	-	20,516	4,704	25,220
Change in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(13,029)	-	-	-	-	(13,029)	(459)	(13,488)
Directors remuneration paid	-	-	-	-	-	-	(3,090)	-	-	(3,090)	-	(3,090)
Total comprehensive income for the period	-	-	-	-	(13,029)	20,516	(3,090)	-	-	4,397	4,245	8,642
Dividend	-	-	-	-	-	(15,141)	-	-	-	(15,141)	-	(15,141)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1,388)	(1,388)
Movement in Tier 1 Sukuk / Bonds	-	-	-	-	-	-	-	(2,050)	-	(2,050)	-	(2,050)
Tier 1 SUKUK coupon paid	-	-	-	-	-	(16,875)	-	-	-	(16,875)	-	(16,875)
Balance at 30 September 2018	310,050	(21,402)	(1,750)	146,185	(17,804)	37,958	-	281,500	-	734,737	75,382	810,119
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
Profit on disposal of investment carried at fair value through other comprehensive income	-	-	-	-	(15,507)	15,507	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	20,350	-	-	-	20,350	5,726	26,076
Nat changes in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	4,436	-	(1,064)	-	-	4,436 (1,064)	1,910	6,346 (1,064)
Directors remuneration paid	-	-	-	-	-	-	(1,064)	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	4,436	20,350	(1,064)	-	-	23,722	7,636	31,358
Cash dividend paid	-	-	-	-	-	(8,873)	-	-	-	(8,873)	-	(8,873)
Movement in Tier 1 Sukuk / Bonds	-	-	-	-	-	-	-	(1,100)	15,000	13,900	-	13,900
Tier 1 SUKUK coupon paid	-	-	-	-	-	(17,528)	-	-	-	(17,528)	-	(17,528)
Balance at 30 September 2019	310,050	(21,402)	(1,750)	147,367	(55,761)	29,602	-	280,400	15,000	703,506	83,524	787,030

The notes on pages 10 to 40 are an integral part of this condensed consolidated interim financial statements.

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Condensed consolidated interim statement of cash flows

for the nine-months period ended 30 September (Unaudited)

	Note	2019 AED'000	2018 AED'000
Cash flows from operating activities			
Profit for the period		26,076	25,220
<i>Adjustments for:</i>			
Depreciation of property, fixtures and equipment		8,286	6,108
Amortisation of intangible asset		-	261
Share of result of associate		(256)	1,043
Dividend income from investments		(23,354)	(27,077)
Loss / (gain) on disposal of investments carried at fair value through profit or loss		25,141	(2,522)
Change in fair value of investments carried at fair value through profit or loss		(18,114)	17,366
Credit impairment loss of loans and advances		50,012	59,775
Reversal of no longer required impairment provision		(4,733)	-
Credit impairment loss of Islamic financing and investing assets		-	3,118
Net movement in provision for employees' end of service benefits		158	550
		<u>63,216</u>	<u>83,842</u>
<i>Changes in:</i>			
Islamic financing and investing assets		39,304	18,678
Loans and advances		(81,918)	(72,256)
Interest receivable and other assets		(210)	(44,254)
Customers' deposits and margin accounts		(106,285)	214,356
Interest payable and other liabilities		29,165	142,522
		<u>(56,728)</u>	<u>342,888</u>
Cash flows from investing activities			
Purchase of investments carried at fair value through other comprehensive income		(17,216)	(74,590)
Proceeds from sale of investments carried at fair value through other comprehensive income		220,256	165,220
Purchase of investments carried at fair value through profit or loss		(5,079)	(120,471)
Proceeds from sale of investments carried at fair value through profit or loss		80,579	97,618
Proceeds from sale of investments carried at amortised cost		-	52,956
Purchase of property, fixtures and equipment		(1,739)	(6,957)
Disposal of property, fixtures and equipment		55	21
Purchase of investments in associates		(39,975)	-
Dividend received		23,354	27,077
		<u>260,235</u>	<u>140,874</u>
Net cash generated from investing activities			

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Condensed consolidated interim statement of cash flows (continued)

for the nine-months period ended 30 September (Unaudited)

	Note	2019 AED'000	2018 AED'000
Cash flows from financing activities			
Repayments of short term borrowings		(24,500)	(118,810)
Medium term loan		(49,999)	87,501
Movement in Tier 1 Sukuk		(1,100)	(2,050)
Movement in Tier 1 Bonds		15,000	-
Tier 1 SUKUK coupon paid		(17,528)	(16,875)
Cash dividend paid		(8,873)	(15,141)
Change in non-controlling interest		-	(1,388)
Directors' remuneration paid		(1,064)	(3,090)
Net cash used in financing activities		(88,064)	(69,853)
Net increase in cash and cash equivalents		115,443	413,909
Cash and cash equivalents at 1 January		508,764	688,638
Cash and cash equivalents at 30 September	8	624,207	1,102,547

The notes on pages 10 to 40 are an integral part of this condensed consolidated interim financial statements.

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 Decretal Federal Law No. 14 of 2018 regarding the Central Bank and Organization of Financial Institution and Activities 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 period ended 30 September 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.

On 24 October 2018, management of Islamic Finance House (“the Subsidiary”) submitted an adjustment plan for restructuring the Subsidiary to the Central Bank of UAE. The adjustment plan has been approved by the Board of Directors on the 6th of February 2019 and by the Central Bank of the UAE on 10th October 2019.

2 Basis of preparation

This condensed consolidated interim financial statements of the Company and its subsidiaries (“the Group”) are prepared under the historical cost basis except for certain financial instruments and investment properties which are measured at fair value.

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

This condensed consolidated interim financial statements does 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 September 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)*

i. 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 2016. 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 condensed consolidated 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.

ii. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's condensed consolidated interim financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective:

- Amendments to References to Conceptual Framework in IFRS Standards 1 January 2020
- Definition of a Business (Amendments to IFRS 3) 1 January 2020
- Definition of Material (Amendments to IAS 1 and IAS 8) 1 January 2020
- IFRS 17: Insurance Contracts 1 January 2021

The Group, however, expects no material impact from the adoption of the above new and amended standards on its financial position or performance.

iii. 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)

iv. 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 statement 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 September 2019	31 December 2018	
Islamic Finance House P.J.S.C.	U.A.E.	100	100	Islamic financing services
Insurance House P.S.C. Finance House	U.A.E.	45.61	45.15	Insurance
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.

IFRS 16 Leases

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.

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Notes to the condensed consolidated interim financial statements

3 Changes in significant accounting policies *(continued)*

IFRS 16 Leases (continued)

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.

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.

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Notes to the condensed consolidated interim financial statements

3 Changes in significant accounting policies *(continued)*

IFRS 16 Leases (continued)

b) As a lessee *(continued)*

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.

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.

4 Financial risk management

The Group has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Insurance risk

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

(a) *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, such that there is no reasonable expectation of recovering in full.

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Notes to the condensed consolidated interim financial statements

4 Financial risk management *(continued)*

(a) Credit risk (continued)

(i) 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 September 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.

(ii) 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. 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.

(iii) 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.

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

(iii) Credit risk measurement (continued)

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.

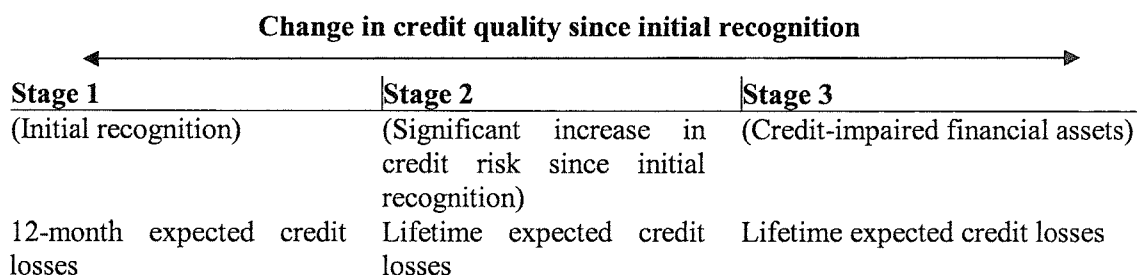
The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between an 18 and 20 rating grade.

(iv) 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.a (v) 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.
- 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:



Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management *(continued)*

(a) Credit risk (continued)

(iv) Expected credit loss measurement (continued)

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 & behaviour of borrower (collateral value, payment holiday, Payment to Income ratio etc.).

Qualitative criteria:

Corporate Loans:

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

Backstop:

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

(v) 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:

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management (*continued*)

(a) Credit risk (*continued*)

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

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

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

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.

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

(v) Definition of default and credit-impaired assets (continued)

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

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.

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)

(a) Credit risk (continued)

(v) 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)*

(a) Credit risk (continued)

(v) Definition of default and credit-impaired assets (continued)

Credit risk 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)

(a) Credit risk (continued)

(vi) Exposure to credit risk

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

As at 30 September 2019					
	Stage 1 ECL AED'000	ECL staging		Lifetme ECL AED'000	Total AED'000
		Stage 2	Stage 3		
<i>Loans and advances – At amortised cost</i>	1,914,940	252,149	566,978	2,734,067	
Loss allowance	(14,322)	(15,207)	(367,395)	(396,924)	
Carrying amount	1,900,618	236,942	199,583	2,337,143	
<i>Islamic financing and investing assets – At amortised cost</i>	91,254	4,544	67,253	163,051	
Loss allowance	(894)	(894)	(57,953)	(59,741)	
Carrying amount	90,360	3,650	9,300	103,310	

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management (continued)

(a) *Credit risk (continued)*

(vi) *Exposure to credit risk*

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

	As at 31 December 2018				
	Stage 1	ECL staging		Lifetime ECL AED'000	Total AED'000
		Stage 2	Stage 3		
		12-month ECL AED'000	Lifetime ECL AED'000		
Credit risk exposures					
<i>Loans and advances – At amortised cost</i>	1,889,799	288,040	474,310	2,652,149	
Loss allowance	(21,556)	(17,942)	(312,147)	(351,645)	
Carrying amount	1,868,243	270,098	162,163	2,300,504	
<i>Islamic financing and investing assets – At amortised cost</i>	131,896	5,692	64,677	202,355	
Loss allowance	(1,974)	(1,164)	(56,603)	(59,741)	
Carrying amount	130,012	4,528	8,074	142,614	

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations from financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters

(c) Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, price of equity and fixed income securities.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in the interest rates, with all other variables held constant, of the Group's result for the year.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Group's profit for the year, based on the floating rate financial assets and liabilities held at 30 September 2019.

	Equity	
	+1% increase AED'000	-1% decrease AED'000
30 September 2019		
Change of 1%	6,921	(3,626)
Cash flow sensitivity	6,921	(3,626)
30 September 2018		
Change of 1%	17,100	(14,913)
Cash flow sensitivity	17,100	(14,913)

(ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and it is ensured these are maintained within established limits.

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

Foreign currency risk is limited since a significant proportion of the Group's transactions, monetary assets and liabilities are denominated in U.A.E. Dirham and U.S. Dollar. As the U.A.E. Dirham is pegged to the U.S. Dollar, balances in U.S. Dollar are not considered to represent significant currency risk. Exposure to other currencies is insignificant to the overall Group.

(iii) Price risk

Price risk is the risk that the fair values of equities and fixed income securities decrease as the result of changes in the levels of equity and fixed income indices and the value of individual instruments. The price risk exposure arises from the Group's investment portfolio.

The following table estimates the sensitivity to a possible change in equity and fixed income markets on the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in the reference equity and fixed income benchmarks on the fair value of investments carried at fair value through profit or loss.

	Equity	
	+5% increase AED'000	-5% decrease AED'000
30 September 2019		
<i>Investments carried at fair value through profit or loss</i>		
Abu Dhabi Securities Market Index	637	(637)
Dubai Financial Market Index	940	(940)
Fixed income securities	-	-
<i>Investments carried at fair value through other comprehensive income</i>		
Abu Dhabi Securities Market Index	3,859	(3,859)
Dubai Financial Market Index	1,034	(1,034)
Unquoted investments	1,165	(1,165)
Cash flow sensitivity	7,635	(7,635)
31 December 2018		
<i>Investments carried at fair value through profit or loss</i>		
Abu Dhabi Securities Market Index	1,333	(1,333)
Dubai Financial Market Index	1,868	(1,868)
Fixed income securities	26	(26)
<i>Investments carried at fair value through other comprehensive income</i>		
Abu Dhabi Securities Market Index	3,677	(3,677)
Dubai Financial Market Index	872	(872)
Unquoted investments	1,555	(1,555)
Cash flow sensitivity	9,331	(9,331)

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

4 Financial risk management *(continued)*

(c) Market risk (continued)

(iii) Price risk (continued)

The effect of decreases in prices of equity and fixed income securities is expected to be equal and opposite to the effect of the increases shown above.

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Group cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding to potential risk, the Group is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorization and reconciliation procedures, staff training and robust assessment process. The processes are reviewed by risk management and internal audit on an ongoing basis.

(v) Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

In common with other insurers, in order to minimize financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

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

	Nine months ended 30 September (Unaudited)		Three months ended 30 September (Unaudited)	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Loans and advances	166,393	170,336	55,632	56,180
Income from Islamic financing and investing assets	7,189	13,489	2,007	4,291
Due from banks	12,109	10,442	3,717	4,126
Others	-	1,714	-	225
Interest income and income from Islamic financing and investing assets	185,691	195,981	61,356	64,822
Customers' deposits and margin accounts	(56,185)	(48,174)	(18,853)	(18,473)
Due to banks and other financial institutions	(7,594)	(12,859)	(2,187)	(4,786)
Profit distributable to depositors	(1,004)	(1,543)	(218)	(527)
Interest expense and profit distributable to depositors	(64,783)	(62,576)	(21,258)	(23,786)
Net interest income and income from Islamic financing and investing assets	120,908	133,405	40,098	41,036

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

6 Net investment income

	Nine months ended 30 September (Unaudited)		Three months ended 30 September (Unaudited)	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
(Loss) / profit on disposal of investments carried at fair value through profit or loss	(25,141)	2,522	(3,294)	454
Change in fair value of investments carried at fair value through profit or loss	18,114	(17,366)	4,373	881
Dividends from investments carried at fair value through profit or loss	3,234	8,113	343	-
Net (loss) / income from investments carried at fair value through profit or loss	(3,793)	(6,731)	1,422	1,335
Dividend income from investments carried at fair value through other comprehensive income	20,120	18,964	1,501	239
Net income from investments	16,327	12,233	2,923	1,574

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

7 Basic and diluted earnings per share

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. As at 30 September 2019, the Group has not issued any instruments which dilutive impact on earnings per share would have when converted or exercised.

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

	Nine months ended 30 September (Unaudited)		Three months ended 30 September (Unaudited)	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Profit for the period attributable to equity holders of the parent	20,350	20,516	2,777	3,873
Less: Tier 1 Sukuk coupon paid	(17,528)	(16,875)	(6,278)	(5,625)
	<u>2,822</u>	<u>3,641</u>	<u>(3,501)</u>	<u>(1,752)</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>0.01</u>	<u>0.01</u>	<u>(0.01)</u>	<u>(0.01)</u>

Finance House P.J.S.C.

Notes to the condensed consolidated interim financial statements

8 Cash and cash equivalents

	(Unaudited) 30 September 2019 AED'000	(Audited) 31 December 2018 AED'000
Cash balances		
Cash on hand	12,138	11,599
Restricted cash balances*	6,000	6,000
	<u>18,138</u>	<u>17,599</u>
Due from banks with original maturities of less than three months		
Placements with banks	223,121	201,001
Call accounts	186,728	167,264
Current and demand accounts	142,820	132,169
Balance with UAE Central Bank	85,864	11,745
	<u>638,533</u>	<u>512,179</u>
Due to banks and other financial institutions with original maturity of less than three months	(26,464)	(15,014)
Other restricted cash balances*	(6,000)	(6,000)
Net cash and cash equivalents	<u>624,207</u>	<u>508,764</u>

For the purpose of the condensed interim statement of cash flows, cash and cash equivalents comprise of unrestricted cash balances with contractual maturities of three months or less as follows:

	(Unaudited) 30 September 2019 AED'000	(Unaudited) 30 September 2018 AED'000
Cash balances	18,138	23,057
Due from banks with original maturities of less than three months	638,533	1,101,979
	<u>656,671</u>	<u>1,125,036</u>
Due to banks and other financial institutions with original maturity of less than three months	(26,464)	(16,489)
Other restricted cash balances*	(6,000)	(6,000)
Net cash and cash equivalents	<u>624,207</u>	<u>1,102,547</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
30 September 2019 (Unaudited)				
Equity instruments:				
- Quoted	279,836	78,857	-	358,693
- Unquoted	78,240	-	-	78,240
Debt instruments:				
- Unquoted investments	-	-	1,837	1,837
Unquoted investment in managed funds	5,808	-	-	5,808
	<u>363,884</u>	<u>78,857</u>	<u>1,837</u>	<u>444,578</u>
Within UAE	310,216	78,857	-	389,073
Outside UAE	53,668	-	1,837	55,505
	<u>363,884</u>	<u>78,857</u>	<u>1,837</u>	<u>444,578</u>
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
	<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 September 2019 is AED 1,837 thousand (2018: AED 1,837 thousand).

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Notes to the condensed consolidated interim financial statements

10 Loans and advances

	(Unaudited) 30 September 2019 AED'000	(Audited) 31 December 2018 AED'000
Commercial loans	2,207,706	2,102,120
Retail finance	526,361	550,029
	<hr/>	<hr/>
Gross loans and advances	2,734,067	2,652,149
Less: Allowance for impairment	(396,924)	(351,645)
	<hr/>	<hr/>
Loans and advances	<u>2,337,143</u>	<u>2,300,504</u>

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

	(Unaudited) 30 September 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
	<hr/>	<hr/>
Restated balance at 1 January 2018	351,645	276,461
Impairment charges for the period/year	50,012	75,848
Reversal of no longer required impairment charges	(4,733)	(664)
	<hr/>	<hr/>
At 30 September/31 December	<u>396,924</u>	<u>351,645</u>

The allowance for impairment includes a specific provision of AED 367.4 million (31 December 2018 AED 312.1) for stage 3 loans of the Group.

11 Islamic financing and investing assets

	(Unaudited) 30 September 2019 AED'000	(Audited) 31 December 2018 AED'000
Commodity Murabaha	97,191	115,530
Covered card and drawings	50,360	67,503
Purchase and lease back	1,166	2,094
Ijarah	11,453	14,284
Others	2,881	2,944
	<hr/>	<hr/>
Gross Islamic financing and investing assets	163,051	202,355
Less: Allowance for impairment	(59,741)	(59,741)
	<hr/>	<hr/>
Islamic financing and investing assets	<u>103,310</u>	<u>142,614</u>

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:

	(Unaudited) 30 September 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	-	4,313
At 30 September/31 December	59,741	59,741

The Allowance for impairment include a specific provision of AED 58.0 million (*31 December 2018 AED 56.6*) for stage 3 Islamic financing and investing assets of the Group.

12 Customers' deposits and margin accounts

	(Unaudited) 30 September 2019 AED'000	(Audited) 31 December 2018 AED'000
Call and demand deposits	211,027	219,381
Time deposits	1,826,596	1,785,555
Wakala deposits	19,648	35,045
	2,057,271	2,039,981
Margin accounts	583,335	706,910
	2,640,606	2,746,891

Analysis of customers' deposits by sector is as follows:

<i>By type:</i>		
Government	1,103,419	976,732
Corporate	1,537,187	1,770,159
	2,640,606	2,746,891

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*).

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Notes to the condensed consolidated interim financial statements

13 Share capital

	(Unaudited) 30 September 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)	<u>310,050</u>	<u>310,050</u>

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 September 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 September 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) 30 September 2019 AED'000	(Audited) 31 December 2018 AED'000
Letters of credit	53,262	169,522
Letters of guarantee	1,153,863	1,370,280
Capital commitments	4,200	4,200
	<u>1,211,325</u>	<u>1,544,002</u>

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

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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 19,600 thousand (2018: AED 18,500 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 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 subsidiary 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) 30 September 2019 AED'000	(Audited) 31 December 2018 AED'000
Loans and advances to customers		
To key management staff	975	973
To members of board of directors	33,425	38,103
Customers' deposits		
From others	12,529	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 financial information are as follows:

	For the nine months period ended 30 September	
	(Unaudited) 2019 AED'000	(Unaudited) 2018 AED'000
Interest and commission income		
From key management staff	35	22
From members of board of directors	1,424	1,003
Interest expense		
To others	226	77
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	16,204	18,891

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.

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Notes to the condensed consolidated interim financial statements

19 Segment information (continued)

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

	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
30 September 2019							
Operating income	82,643	36,067	13,047	5,208	51,737	-	188,702
Inter-segment revenues	66,689	(66,689)	-	-	-	-	-
Segmental results and profit (loss) from operations	27,266	36,671	9,219	(367)	10,729	(57,442)	26,076
Segmental assets	2,235,177	1,046,318	160,972	163,666	367,097	-	3,973,230
Segmental liabilities	2,207,911	589,252	67,482	82,832	238,723	-	3,186,200
30 September 2018							
Operating income	74,248	46,562	14,298	6,421	46,808	-	188,337
Inter-segment revenues	65,927	(65,927)	-	-	-	-	-
Segmental results and profit (loss) from operations	15,164	46,742	4,436	333	8,393	(49,848)	25,220
Segmental assets	2,163,123	1,850,884	202,591	267,166	306,772	-	4,790,536
Segmental liabilities	2,147,959	1,318,475	120,123	186,221	207,639	-	3,980,417
31 December 2018							
Segmental assets	2,317,670	1,114,366	182,763	175,117	304,468	-	4,094,384
Segmental liabilities	2,288,655	640,209	98,791	93,916	204,640	-	3,326,211

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Notes to the condensed consolidated interim financial statements

20 Fair value measurement

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy as at 30 September 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	30 September 2019	78,857	-	-	78,857
		<u>78,857</u>	<u>-</u>	<u>-</u>	<u>78,857</u>
At fair value through other comprehensive income					
Quoted equities	30 September 2019	279,836	-	-	279,836
Unquoted equities	30 September 2019	-	10,485	67,755	78,240
Investment in managed funds	30 September 2019	-	5,808	-	5,808
		<u>279,836</u>	<u>16,293</u>	<u>67,755</u>	<u>363,884</u>
Assets for which fair value is disclosed					
Investment carried at amortised cost	30 September 2019	-	1,837	-	1,837

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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
		<u>161,384</u>	<u>-</u>	<u>-</u>	<u>161,384</u>
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
		<u>454,925</u>	<u>18,372</u>	<u>87,281</u>	<u>560,578</u>
Assets for which fair value is disclosed					
Investment carried at amortised cost	31 December 2018	-	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.

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21 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. The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	Unquoted equities at fair value through other comprehensive income AED'000 2019	Unquoted equities at fair value through other comprehensive income AED'000 2018
Balance at 1 January	87,281	83,095
Gain / (Loss) in OCI	-	4,186
Purchases	-	-
Disposals	(19,526)	-
Transfer into Level 3	-	-
Transfer out of Level 3	-	-
Balance at 30 September / 31 December	67,755	87,281

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Notes to the condensed consolidated interim financial statements

22 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.

23 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.

The following table summarises the reclassification made to the statement of financial position and statement of profit or loss and other comprehensive income for prior period.

31 December 2018

	<u>Impact of reclassification</u>		
	<u>As previously reported</u> AED'000	<u>Reclassification</u> AED'000	<u>As reclassified</u> AED'000
Statement of financial position:			
Assets			
Due from banks	<u>512,563</u>	<u>(384)</u>	<u>512,179</u>
Liabilities			
Customers' deposits and margin accounts	<u>2,747,275</u>	<u>(384)</u>	<u>2,746,891</u>

The reclassification impact has been assessed as immaterial to the opening balances of the Group's statement of financial position.

30 September 2018

	<u>Impact of reclassification</u>		
	<u>As previously reported</u> AED'000	<u>Reclassification</u> AED'000	<u>As reclassified</u> AED'000
Statement of profit or loss and other comprehensive income:			
Income			
Net insurance income	<u>41,144</u>	<u>(3,938)</u>	<u>37,206</u>
Expenses			
General and administrative expenses	<u>(50,737)</u>	<u>3,938</u>	<u>(46,799)</u>

The reclassification has no effect on the net profit previously reported by the Group or its net equity.