



Chairman's Report for the three months ended 31 March 2020

On behalf of the Board of Directors, I am pleased to present the condensed consolidated interim financial statements of Finance House PJSC and its subsidiaries (FH Group) as at 31 March 2020 and the results of its operations for the three months ended 31 March 2020.

FH Group has posted a Net Profit of AED 1.21 million for the first quarter of 2020.

Net Interest Income and Income from Islamic Financing and Investing Assets weighed in at AED 40.88 million in Q1 2020 compared to AED 44.77 million in the same period last year. The primary reasons are: a sizeable reduction in the size of our Retail Finance lending book as a result of applying more stringent lending criteria, in line with prevailing market conditions, accelerated repayments of funded facilities by some corporate borrowers and the planned reduction in the size of our investments in high yield Perpetual instruments, to comply with the new finance companies' regulation. Net Insurance Income was lower at AED 13.72 million in Q1 2020 compared to AED 17.68 million in Q1 2019, due to higher claims arising from a change in product mix that resulted from a higher proportion of medical insurance business in comparison to Marine and non-Marine businesses.

The shock impact of Covid-19 combined with sharp decline in oil prices in March 2020 resulted in a dismal performance of local and global stock markets in Q1 2020 and all risk assets in general.



As marked to market reductions, albeit temporary, in the values of UAE stocks held as part of the trading book, are accounted through the P&L Account, Net Investment income in Q1 2020 reduced to AED 1.59 million compared to AED 10.33 million in the same period of the prior year. This is in addition to significant marked to market value reductions accounted through Other Comprehensive Income, which again are considered to be transient in nature. We remain optimistic that local & global stock and bond markets will bounce back in the second half of 2020, as the world adapts to the new realities of a post Covid-19 era.

Net Fee & Commission Income earned in Q1 2020 was lower at AED 7.33 million compared to AED 12.14 million in Q1 2019. This was mainly on account of lower stock broking commissions from reduced trading volumes in ADX & DFM during Q1 2020 combined with lower volumes of funded and unfunded business in a subdued business environment.

Net Loans & Advances including Islamic Financing & Investing Assets as of 31 March 2020 stood at AED 2.35 billion compared to AED 2.54 billion as at 31 December 2019. This is due to accelerated repayments of funded credit facilities by some of our corporate customers and reduction in the size of our Retail Finance lending book due to more stringent lending criteria. Customers' Deposits & Margin Accounts as of 31 March 2020 held steady at AED 2.43 billion compared to AED 2.47 billion as at 31 December 2019. Consequently, the loan book continues to be fully funded by the deposit book, reflecting the Group's cautious and balanced approach to asset/liability growth.



Total operating expenses at the consolidated level were lower by 5.4% at AED 51.23 million in Q1 2020 compared to AED 54.15 million in Q1 2019, as a result of several cost saving measures already implemented since the beginning of 2020. To cope with the potential business impact of Covid-19 in the near to medium term, several additional cost rationalization measures across the Group are underway. The positive impact of these planned measures on the overall results of the Group are expected to be realized from the second half of 2020 onwards.

FH's loan loss provisioning policy continues to be conservative. With the implementation of IFRS 9 based credit impairment provisioning (expected credit loss model) effective 1 Jan 2018, loan loss provision set aside in Q1 2020 was AED 18.77 million compared to AED 20.36 million in Q1 2019.

The FH Group's liquidity position as of 31 March 2020 continues to be strong, with Cash & Cash equivalents accounting for 18.4% of Total Assets. Similarly, Capital Adequacy Ratio at the consolidated level as of 31 March 2020 continues to be robust at 23.22%, providing a solid footing for sustained future growth in assets.

In January 2020, FH's investment grade corporate credit rating of "A3" (Short Term) and "BBB-" (Long Term), both with a "Stable" outlook were reaffirmed by Capital Intelligence (CI), an internationally reputed credit rating agency. We are proud to maintain this investment grade credit rating for seven years in a row, despite challenging economic conditions- locally & globally.



The business disruptions caused by Covid-19 and allied factors will certainly have a bearing on the overall results of the Group for 2020. However, it is still early days to quantify the precise impact of Covid-19 on the operating results of the Group for the remainder of 2020. We remain confident that our nimble strategy execution capabilities will help us to partly mitigate the potential impact of Covid-19 and allied factors.

On behalf of the Board of Directors,

Mohammed Abdulla Jumaa Alqubaisi
Chairman

Abu Dhabi
17 June 2020