



Chairman's Report for the half year ended 30 June 2016

On behalf of the Board of Directors, I am pleased to present the condensed interim consolidated financial statements of Finance House P.J.S.C and its subsidiaries (FH Group) as at 30 June 2016 and the results of its operations for the half-year ended 30 June 2016.

FH Group has registered a Total Comprehensive Income of AED 47.71 million for the half-year ended 30 June 2016 compared to AED 66.98 million earned during the same period last year.

Net Interest Income, income from Islamic Financing and Investing Assets and net income from Perpetual instruments increased by 15% to AED 107.37 million compared to AED 93.38 million in the same period last year, on the back of a steady growth in the loan book and selective additions to the Perpetual instruments portfolio. Net Fee & Commission Income earned in the first half of 2016 rose by 10.4% to AED 24.58 million compared to AED 22.27 million in the first half of 2015, mainly on account of higher processing fees on new commercial and consumer lending facilities and increased volumes of unfunded business transacted by corporate clients. Following a significant turnaround in the insurance business, Net Insurance Income was higher by AED 6.46 million compared to the first half of the previous year.

Income from investing activities during the first half of 2016 was lower by AED 20.58 million compared to the same period last year primarily due to a reduction in rental income following the disposal of a significant investment property in December 2015 and a major correction in domestic equity prices, particularly in the second quarter of 2016. However, the reduction in Investment income was more than compensated by Other Operating Income which surged higher by circa AED 21.80 million, primarily on account of robust recoveries from the non-performing portfolio against which excess loan loss provisions were held. As a combined result of the above, Total Operating Income for the half year ended 30 June 2016 rose by 7.9% to AED 197.85 million compared to AED 183.36 million in the corresponding period of the previous year.

Net Loans & Advances including Islamic Financing & Investing Assets grew by 7.5% to reach AED 2.22 billion as of 30 June 2016, compared to AED 2.07 billion at the same time last year. Notwithstanding this steady pace of loan book growth, the Loans to Deposits ratio at the consolidated level as of 30 June 2016 stood at a remarkably healthy 81.5%, reflecting the Group's cautious and balanced approach to asset/liability growth.

Total operating expenses at the consolidated level were higher by 14.3% in the first half of 2016 compared to the same period last year mainly on account of hiring new employees and



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higher establishment costs, in line with the anticipated increase in business volumes across major business segments.

FH Group's loan loss provisioning policy continues to be conservative. Bearing in mind the subdued economic climate and the likelihood of potential adverse impact on credit portfolio quality going forward, we have taken additional loan loss provisions in the first half of this year, as a precautionary measure. P&L charge on account of loan loss provision during the first six months of 2016 was stepped up to AED 60.28 million compared to AED 24.46 million in the same period last year.

The results achieved in the first six months of 2016 are a continuing reflection of a resilient business model that has stood the test of time. Our three main business areas, viz. Commercial Finance, Retail Finance & Investments complement each other and are integrated to deliver profitable business growth even under challenging economic conditions.

In line with our conscious approach to maintain abundant liquidity at all times, our Liquidity position as of 30 June 2016 remained robust with Cash & Cash Equivalents accounting for 16.9% of Total Assets. Furthermore, our comfortable Capital Adequacy Ratio of 24.9% at the consolidated level as of 30 June 2016 provides ample room for sustained asset growth in the near future.

In January 2016, FH's investment grade corporate credit rating of "BBB-" (Long Term) and "A3" (Short 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 three consecutive years, despite challenging economic conditions- locally & globally.

We remain confident that our strategy of continuously seeking and addressing profitable niche segments will enable us to generate reasonable returns to our shareholders even under the present low economic growth environment.

On behalf of the Board of Directors,

Mohammed Abdulla Alqubaisi
Chairman

Abu Dhabi
02 August 2016



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Page 2 of 2

شركة مساهمة عامة برأس مال وقدره ٢١٠٠٤٩٠٩٦١ درهم إماراتي P.J.S.C and the share capital is AED 310,049,961 Public Joint Stock Company