




## Chairman's Report for the year ended 31 December 2018

On behalf of the Board of Directors, I am pleased to present the consolidated financial statements of Finance House P.J.S.C. and its subsidiaries (FH Group) for the financial year ended 31 December 2018.

From a reformist perspective 2018 was a landmark year for the UAE with the Government announcing and/or introducing a series of sweeping changes that are intended to have a positive impact on the country's economy, fiscal policies, visa system and even the gender make-up of the Federal National Council, in the medium to long term. The UAE Government aims to prepare the country for a more prosperous future in a post-oil world, by creating a dynamic economic environment that will stimulate public & private sector investment, create jobs, spur innovation & technological advances across all key economic sectors and improve the overall quality of life of UAE residents at large.

The flipside of "anticipated long term gain" is invariably "agonising short term pain". And this is what most economic sectors in the UAE (including the financial services sector) experienced in 2018. With a business strategy that is almost entirely focused on the UAE, the FH Group is no exception to this rule. For the year ended 31 December 2018, the FH Group posted a Consolidated Net Profit of AED 17.84 million compared to AED 32.61 million in the previous year. Despite a lower bottom-line in comparison to the earlier years, we are still proud to maintain our profitable track record for the fourteenth successive year since inception.

Net Interest Income, Income from Islamic Financing & Investing Assets and Net Income from Perpetual Instruments were marginally lower at AED 194.95 million in 2018 compared to AED 196.64 million in the previous year. This is mainly due to increased cost of funding that was not entirely passed on to our corporate customers. Net Fee and Commission income earned in 2018 was also marginally lower at AED 46.75 million compared to AED 47.48 million in the previous year. Poor trading volumes in domestic equity markets during 2018 translated to significantly lower brokerage fees at our local stock broking subsidiary. Net Insurance Income catapulted to AED 38.77 million in 2018 compared to AED 12.68 million in the previous year, aided by a sustained turnaround in the core operations of our insurance subsidiary. Aggregate investment & other operating income was substantially lower at AED 19.32 million in 2018 compared to AED 42.77 million in the previous year primarily on account of the disappointing





performance of domestic equity markets in 2018 and consequential marked to market losses of circa AED 31.50 million from our domestic equities trading portfolio. The anticipated resurgence in domestic equity valuations during 2019 could potentially reverse the negative P&L impact of 2018.

Net Loans & Advances including Islamic Financing & Investing Assets as of 31 December 2018 were also marginally lower at AED 2.44 billion compared to AED 2.51 billion as at the end of the previous year. This is primarily attributable to weak demand for credit from our target customer segments, who in turn were negatively impacted by subdued economic conditions that prevailed throughout 2018. Customers' Deposits & Margin Accounts as of 31 December 2018 stood at AED 2.75 billion translating into a healthy Loans to Deposits ratio of 88.9% as of 31 December 2018.

Our loan loss provisioning policy continues to be conservative. With the implementation of the Expected Credit Losses model (ECL) for loan impairment provisioning under IFRS 9 with effect from 1 January 2018, net impairment charge to the P&L A/C for the year 2018 has increased to AED 79.50 million compared to AED 55.96 million in the previous year. With gradual improvement in economic conditions anticipated over the coming 12 months, net impairment charge to the P&L A/C is expected to moderate in the near future.

Bearing in mind the subdued macro-economic conditions, we took decisive steps during 2018, to reduce Salaries & employees related expenses. As a result, employee costs for the year ended 31 December 2018 were lower by 9.3% at AED 145 million compared to AED 159.87 million in the previous year. However in 2018, General and Administrative expenses increased by AED 6.33 million to AED 57.46 million compared to AED 51.12 million in the previous year. Bulk of this increase i.e. AED 5.7 million out of AED 6.33 million is on account of input VAT that is not recoverable from customers pursuant to the Federal VAT Law that came into force with effect from 1 January 2018.

FH Group continues to manage its liquidity in a prudent and conservative manner. Since the onset of the financial crisis in October 2008, we have remained net lenders to the UAE inter-bank market and continue to maintain this position till date. Net Cash and Cash Equivalents as at 31 December 2018 stood at AED 509.15 million, representing a healthy 12.43% of Total Assets.

At the consolidated level, Shareholders' equity as at 31 December 2018 stood at AED 768.17 million. This is after distributing a cash dividend of 5% for 2017, amounting to AED 15.14 million and 7.5% coupon on the Tier 1 Sukuk amounting to AED 22.50 million. Capital



adequacy ratio at the consolidated level as of 31 December 2018 stood at a robust 20.3%, providing a solid footing for sustained future growth in assets.

Subject to the approval of the Central Bank of the UAE, the Board has recommended a cash dividend payout not exceeding 50% of the Net Profit for the year ended 31 December 2018.

In December 2018, the investment grade Corporate Credit Ratings of Finance House were reaffirmed by Capital Intelligence, at "A3" Short Term and "BBB-" Long Term, both with a stable outlook. The reaffirmation of our investment grade credit ratings is a fitting testament to the soundness of our growth strategies, the resilience of our business model and the robustness of our liquidity management & strategy execution capabilities.

We look forward to 2019 with measured optimism for profitable growth, in line with anticipated improvement in overall market conditions. We continue to recalibrate our strategies and strategy execution capabilities on a regular basis in response to dynamic changes in market conditions. We are convinced that our corporate and business strategies are sound and we have the necessary mechanisms and execution capabilities in place to exploit profitable opportunities, to adapt quickly to changing market conditions, to continue managing risks well and to maximize returns for our shareholders.

On behalf of the Board of Directors,

**Mohammed Abdulla Jumaa Alqubaisi**  
Chairman



Abu Dhabi  
13 February 2019