



First Gulf Bank – Management Discussion and Analysis Report

First Gulf Bank Reports Strong Financial Results

20% of solid growth with Q3 Net Profit at AED930 Million

Main Highlights:

- Net Profit at AED930 million in Q3 2009 is higher than Q2 2009 by 20% and is higher than Q3 2008 by 9%
- Net Profit at AED2,456 million for the first nine months of 2009 is 5% higher than the same period of 2008
- Operating Income at AED4.3 billion for the first nine months of 2009 is 26% higher than same period last year
- Deposits increased by 21% in the first nine months of 2009 while Loans increased by 13%, reflecting a healthy liquidity position

21 October 2009, Abu Dhabi, U.A.E.: First Gulf Bank (FGB), one of the region's leading financial institutions, announced today its financial results for the third quarter, reporting a Net Profit of AED930 million, which is 20% higher than the second quarter of 2009, and 9% higher than the third quarter of 2008.

“At a time where the global economy is witnessing slow recovery, FGB stands out as a solid financial institution, delivering a strong performance. Our results for the quarter demonstrate our ability to successfully weather the crisis that affected the world and emerge even stronger. The results reconfirm, that FGB's business model is built on solid foundations,” said André Sayegh, FGB's Chief Executive Officer.

“Thanks to FGB's visionary board of directors, experienced management, sound business strategy, and dedicated staff, we are able, quarter after quarter, to provide the best returns to all our stakeholders,” added Sayegh.

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The Total Operating Income for the quarter at AED1,688 million is 29% higher than the previous quarter, and is 42% higher than same quarter of last year.

In line with the Bank's strategy of diversification of revenue drivers, the product mix contribution to the revenue of the quarter is as follows: 58% from interest and Islamic finance, 18% from Corporate and Retail fees and commissions, 11% from Foreign Exchange, Derivatives and Investment Income, and 13% from Subsidiaries and Associate companies.

"The bank has long recognised the importance of revenue diversification and it remains one of the main strategies for our future growth. FGB's business model commands the power of revenue generation and is built to deliver solid and consistent returns," said Sayegh.

Net Interest and Islamic Financing for the quarter at AED985 million is 3% higher than Q2 of 2009, and is 31% higher than the same quarter of 2008, this trend represents an important growth potential for this area.

AED2,456 million was the Net Profit for the first nine months of 2009, which is 5% higher than the same period of last year. 88% of the Net Profit was generated by the Core Banking Businesses and the remaining 12% was generated by the Subsidiaries and Associate Companies.

"Our Core Banking Businesses remain the engine driving our growth and are behind our strong financial results. Simultaneously, we continue to focus on our Subsidiaries and Associate Companies; beside complementing our core operations, they also carry a strong future earning potential," commented Sayegh.

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This outstanding achievement was mainly the result of a strong balance sheet which generated AED2.8 billion of Net Interest and Islamic Financing income. This was 56% higher than the AED1.8 billion generated in the first nine months of 2008. The Bank's Net Interest Margin for the first nine months of the year was maintained at the 3.6% level compared to 3.7% by end of June 2009.

Expenses maintained the decreasing trend which started in the first quarter of 2009. During the third quarter, expenses reached AED248 million, which is lower than both first and second quarters of 2009 of AED293 million and AED257 million respectively, and much lower than the fourth quarter of 2008 of AED411 million.

"FGB has always set an example for Efficiency. Acting timely and adequately managing both ends of the income statement in terms of expenses and revenues, enabled us to achieve optimum levels of profitability quarter after quarter. The bank remains one of the most efficient and most profitable organisations in the region," said Sayegh.

The total Operating Expenses reached AED799 million by the end of September 2009, which is 10% higher than the same period of last year. The Cost to Income Ratio for the first nine months of the year was at 18%, which is lower than the 21% achieved at the end of September 2008.

For the first nine months of 2009 the Earning Per Share (EPS) stood at AED1.52, compared to AED1.66 at end of September 2008.

"Earning Per Share remains a primary focus for FGB. We continue to deliver our commitment and maximise value and profit to our shareholders," commented Sayegh.

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In line with the bank strategy to maintain a strong balance sheet, additional loan portfolio provisions of AED490 million were taken during the third quarter of 2009, over and above the AED220 million and AED260 million booked respectively during the first and second quarters of 2009. By end of September 2009, the Provisions to Gross Loans outstanding on the Balance Sheet stood at 2.1%, compared to 1.8% by the end of June 2009. The Non Performing Loans to Gross Loans Ratio by the end of third quarter of 2009 was at 1.4% and the Provision Coverage Ratio was at 153%.

On Al Goseibi and Saad Groups, FGB is following the Central Bank of the UAE guidelines for provisioning. The bank's total exposure to the two groups is US\$ 104 million, (US\$ 55 million on syndications and US\$ 49 million on trade business). In the second and third quarters of 2009, a total of AED70 million in provisions were booked. "Over the coming five quarters ending in 2010, the bank would take an additional AED174 million into provisions, which should be easily absorbed by the existing high level of general provisions and by the strong earning momentum of FGB," assured Sayegh.

At the end of the third quarter of 2009, the Total Assets of the bank were at AED124 billion, which is 16% higher than the Total Assets by end of 2008. During the same quarter, the Loans and Advances witnessed a controlled growth of 4.6% to reach AED90 billion, while Deposits grew by 6.7% to reach AED89.4 billion. This improved the Loan to Deposit Ratio to 101%, down from the 107% in December 2008, 110% in March 2009 and 103% in June 2009.

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Shareholders' Equity stood at AED 22 billion by end of September 2009, the second highest in the UAE's banking sector, and the Capital Adequacy Ratio (CAR) at 18.8%. The bank is yet to convert the AED4.5 billion deposit from the Ministry of Finance to Tier II Capital, which will raise the existing CAR by an additional 4% once converted.

“Having a clear vision, combined with a sound business strategy is critical to the success of our growing organisation. FGB is poised to build on its successes and continues to generate more value for its shareholders given its very strong financial position.” concluded Sayegh.

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Karim Karoui
Chief Financial Officer