First Gulf Bank بنك الخليج الأول

Management Discussion and Analysis Report

First Gulf Bank reports 10% increase in Full Year 2009 Net Profit to reach a new record of AED3,310 million

27% increase in Q4 '09 results to reach AED855 million

Main Highlights

- **Net Profit at AED855 million in Q4 2009 is 27% higher than the same quarter in 2008.**
- **Net Profit at AED3,310 million for the full year is 10% higher than the full year of 2008.**
- **Revenues for the year 2009 increased by 31% while Expenses decreased by 5%.**
- **Board recommended a cash dividend distribution of 50% of capital ie AED0.50 per share.**

27 January 2010, Abu Dhabi, United Arabic Emirates: The Board of Directors of First Gulf Bank (FGB) today announced its full year 2009 financial results with Net Profit reaching a new record at AED 3,310 million, representing a 10% increase over the bank's 2008 results.

Abdulhamid Saeed, Board Member and Managing Director commented on the results, "Once again, FGB delivers an outstanding financial performance in 2009. At a time where the world is challenged by the global economic crisis, FGB emerges stronger and delivers record results. This reaffirms the bank's leading position as a very solid financial institution built on strong fundamentals."

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"FGB continues to deliver strong results year after year. This consistent success is clearly attributed to the vision and sound business strategy from the Board of Directors. This vision is implemented by the highly qualified and experienced management team and the fully dedicated staff," said Andre'Sayegh, Chief Executive Officer.

"This success is also attributed to our focus on efficiently managing the balance sheet and to the appropriate allocation of both financial and human resources to the most profitable and creditworthy businesses of the bank," added Sayegh.

Net Profit for the quarter was at AED855 million, 27% higher than same quarter of last year at AED671 million.

75% of the full year Net Profit of AED3,310 million was contributed by the Core Banking businesses of the Group mainly Retail, Corporate, Treasury, Investments and Islamic Finance. The remaining 25% was contributed by the subsidiaries and associate companies of the group, which falls in line with the bank strategy of a balanced diversification.

"Our Core Banking businesses remain the main revenue generating power. We have a very strong model and year on year it proves to be remarkably successful. Our Core Banking businesses will undoubtedly continue to be of ultimate strategic importance to the Group," said Sayegh.

"We are always focused on diversifying our sources of income even within the same class of assets. It is as an increasingly important means for us to mitigate risks and manage the economic cycles. Associating a regular stream of cash flow to the various classes of assets remains the core of our diversification strategy." commented Sayegh.

For the full year of 2009 the Earning Per Share (EPS) stood at AED2.09, compared to AED2.10 at the end of year 2008.

"Among the banking sector, our earnings per share is by far the highest. Maximising value for our shareholders is a primary objective for FGB," commented Sayegh.

The revenue analysis highlighted a very strong contribution from the Net Interest and Islamic Financing activities which was at AED3,834 million for the full year 2009. This represents a 49% increase over 2008.

The Corporate and Retail fees and commissions at AED 1,189 million are 9% higher than those of 2008. Net Interest and Fees and commissions combined together represent 81% of the total revenue generated by the Group during the year 2009. This demonstrates the consistency and strength of the Core Commercial Banking activities of the group.

The Foreign Exchange and Derivative income at AED344 million was 8% higher than last year.

Through a prudent investment strategy the bank was able to make a positive investment income of AED66 million which is much higher than the negative income of AED229 million booked in 2008.

"FGB will continue its focus in the future to protect and strengthen its balance sheet and optimize its efficiency through prudent lending and investing activities, timely sourcing the funding requirement and maintaining an appropriate level of liquidity," said Sayegh.

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The loans and advances book has grown by 13.9% to reach by end of December AED90.4 billion, which represents 72% of the total assets of the Group. The Corporate Loans represented 70% of the total and the Retail Loans represented the remaining 30%.

The quality of the loan book is in line with the international standards. The Non Performing Loans to Gross Loans Ratio stood at 1.6% and the Provision Coverage Ratio was maintained at a high 174%.

Total deposits stood at AED86.4 billion, after the conversion of the Federal Government deposit of AED4.5 billion from customers' deposits into Tier II Capital. With this conversion, the adjusted Loan to Deposit ratio increased from 100% to 105%. The Advance to Stable Deposit Ratio as calculated by The Central Bank of UAE was by year end at 86%, which is far below the regulatory maximum of 100%.

The Government of Abu Dhabi injection of Tier I Capital Notes and the conversion of the Federal Ministry of Finance Deposits into Tier II Capital boosted the capital adequacy ratio by end of 2009 to 23%, where the Tier I Ratio is at 19%, one of the highest in the banking industry. By year end 2009, the total shareholders' equity base was at AED23 billion. This solid pillar in FGB's strong financial position will be supporting its future potential growth over the coming few years.

During the fourth quarter of 2009, FGB US$500 million medium term note issue was oversubscribed by six times. The funds raised from the international and regional wholesale market reflect the confidence placed by the investors in FGB's strong financial position and bright future.

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In 2009, the bank continued with its prudent geographical expansion plans. The bank upgraded its Singapore representative office into a wholesale branch and launched its operations both in Qatar and India through the opening of representative offices. This is in addition to the bank's joint venture in Libya, First Gulf Libyan Bank which was inaugurated in the last quarter of 2008.

"Our international footprint is part of our income diversification strategy. The markets we are in are very strategic to us and we will continue to spread our presence gradually in more leading financial centres across the globe," explained Sayegh.

FGB continues to enjoy a prominent position in the marketplace, locally and internationally, with its reaffirmed ratings. FGB is rated A+ by Fitch, A2 by Moody's and A+ by Capital Intelligence.

"Our reaffirmed ratings reflect our solid financial performance, significant strategic importance, and the role we play," said Sayegh.

In 2009, the bank continued its success story as it was named "Bank of the Year 2009, UAE" by the Banker Awards and the "Strongest Bank in the UAE 2009" by The Asian Banker. These awards reflect the success and the strength which the bank enjoys today.

In 2009, FGB marked its thirtieth anniversary. Since 1979, the journey of FGB has exemplified an amazing success story of a bank, whose Board leadership and dedicated staff transformed it into a great financial institution.

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“Today, after three decades, we proudly state that we have set new benchmarks, provided innovative services and significantly participated in the growth of the UAE economy,” commented Sayegh.

"Ten years ago, the bank has seen the major transformation with the change of ownership and management. Since then, the real growth has begun. Year after year, we have consistently expanded our asset base and profits,” stated Sayegh. “As we enter into a new era, we look forward to continue to raise the bar with everything we do, bring more innovative products and services to the market and pave the way for more opportunities,” he added.

“We will maintain our focus on delivering customer excellence and optimum stakeholder returns while being a key supporter of initiatives in the communities we serve.” concluded Sayegh.

During its meeting today, the Board of Directors recommended the distribution of cash dividend of 50% of capital ie AED0.50 per share.

“FGB has consistently been paying dividend since the year 2000. We are very proud with what we have achieved in term of returns, which our shareholders enjoyed over the past ten years. As we look back with pride, we look ahead with confidence. We are fully committed and equipped to meet the future challenges and continue to outperform. We will continue to play our role and participate in the growth of the economy. As a market leader, we will continue to set a model, set standards and set new milestones,” said Abdulhamid Saeed, Managing Director of FGB.

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Financial Position 1999 - 2009

	1999	2009
Net Profit (AED Mn)	-49	+3,310
Total Assets (AED Bn)	2.0	125.5
Shareholders' Equity (AED Bn)	0.5	22.9
Credit Rating	BB+	A+

Income Statement Indicators

AED Mn	2009	2008	Variance
Revenue	6,164	4,698	+31%
Expense	1,081	1,135	-5%
Provision	1,770	566	+213%
Minority Interest	-3	8	+133%
Net Profit	3,310	3,005	+10%

Balance Sheet Indicators

AED Mn	2009	2008	Variance (%)
Loans & Advances	90,386	79,363	+ 14%
Total Assets	125,473	107,522	+17%
Customers' Deposits	86,422	73,963	+ 17%
Shareholders' Equity	22,903	16,620	+ 38%

Key Ratios

	2009	2008
Loan to Deposit	105%	107%
Capital Adequacy	22.6%	14.1%
Net Interest Margin	3.7%	3.1%
Cost To Income	18%	24%
NPL's to Gross Loans	1.6%	0.6%
Provision Coverage	174%	233%

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