Management Discussion and Analysis Report

First Gulf Bank 2013 Assets up 11% to AED 195 billion and Net Profit up 15% to AED 4.77 billion

- *FGB's Board of Directors recommends the distribution of 100% cash dividends and 30% bonus shares for 2013, against 83% cash dividends in 2012*
- *2013 cash dividends represent 63% of full year Net Profits, yet maintaining a high Capital Adequacy ratio in excess of 17.5% after dividend distribution*
- *2013 Total Assets up 11% to AED 195 billion, compared with AED 175 billion at year-end 2012*
- *Supported by growth in Assets, 2013 Net Profits recorded at AED 4.77 billion, a 15% increase from AED 4.15 billion in 2012*
- *Q4'2013 Net Profit at a historical-high of AED 1.37 billion, 19% higher than AED 1.15 billion for Q4'2012*
- *Full Year 2013 Return on Average Equity (RoAE) increased to 15.8% against 14.8% in 2012 and Return on Average Assets (RoAA) increased to 2.6% against 2.5% in 2012.*
- *Loans and advances at AED 126.9 billion, Customer Deposits at AED 138.0 billion*
- *Full Year 2013 revenues stood at AED 8.42 billion, 16% higher than 2012*
- *Q4'2013 revenues stood at AED 2.48 billion, up by 23% Year-on-Year*
- *Healthy credit quality metrics with NPL ratio of 3.3% and provision coverage at 91.1%*
- *Robust 2013 ratios: Loan to Deposit Ratio at 92%, Cost to Income Ratio at 21%, Net Interest Margin at 3.7% and Basel II Capital Adequacy Ratio at 17.5%.*
- *Successful consolidation of the newly acquired "Dubai First" during Q4'2013*

بنك الخليج الأول
First Gulf Bank

Abu Dhabi, January 29, 2014: First Gulf Bank, (FGB), one of the leading banks in the UAE, achieved its 14th consecutive year of positive bottom line growth in 2013, with record 2013 Net Profits of AED 4.77 billion, representing a 15% increase from AED 4.15 billion in 2012. In the fourth quarter of 2013, Net Profits grew by 19% from AED 1.15 billion in Q4'2012 to an unprecedented AED 1.37 billion.

Commenting on the Bank's robust performance in 2013, Abdulhamid Saeed, FGB Managing Director and Board Member, said: "FGB's outstanding results for 2013 reconfirm the solid foundation of the FGB business model year after year. Clearly, this achievement is the result of our concentrated efforts to grow a diversified stream of revenues across businesses and geographies. Our profitability is supported by a sustainable growth of quality assets and cost management. I am confident to confirm, that FGB now commands the power of even stronger future revenue generation."

Saeed added: "First Gulf Bank is committed to continue offering high returns to our shareholders. Our consistent, solid performance, growing capital and strong liquidity have played a key role in strengthening shareholders' trust in FGB. Over the years, the majority of FGB shareholders are perceived to be long term strategic investors rather than speculators. FGB shares generated a 5-year total return to shareholders in excess of 400% for the period. After the proposed dividend, which represents 63% of 2013's Net Profit, our Basel II Capital Adequacy ratio would remain in excess of 17.5%, much higher than the regulatory requirement."

FGB's Board of Directors has recommended the distribution of a cash dividend of 100% (or One Dirham per share) and 30% bonus shares for the financial year ended 31 December 2013. This implies a total cash dividend of AED 3.0 billion, up 20% from AED 2.5 billion distributed in 2012. The dividends proposal is subject to the UAE Central Bank's approval, to be followed by the approval of the Ordinary General Assembly of Shareholders, planned to be held on 26th February 2014.

Andre Sayegh, CEO of First Gulf Bank, commented: “While there is no doubt that the economic environment is improving, both in the domestic market and overseas, our continued focus remains primarily on balance sheet optimisation. In fact we manage ratios with the objective of achieving best asset allocation while maintaining a strong liquidity position and a strong capital base. Moreover, our focus on risk mitigation and robust credit assessment resulted in delivering a solid balance sheet with a low level of NPLs. Last November, FGB’s leadership and strong financial position were acknowledged with the Banker’s of London awarding FGB the title of “UAE Bank of the Year.”

A key event during Q4’2013 was the successful completion of the “Dubai First” acquisition in November. Sayegh added: “FGB’s acquisition of “Dubai First” was in line with our ongoing strategy to diversify our sources of revenue with complementing businesses that add value and offer clear synergies to our existing operations. “Dubai First” also supports FGB’s customer-centric strategy and the creation of an integrated platform for developing exciting new products in the future.”

FY’2013 and Q4’2013 Summary Financials

Income Statement (AED Mn)	FY'13	FY'12	YoY	Q4'13	Q4’12	YoY
Net Interest and Islamic Financing Income	5,994	5,520	9%	1,619	1,470	10%
Other Operating Income	2,427	1,750	39%	857	537	60%
Operating Income	**8,421**	**7,270**	**16%**	**2,475**	**2,006**	**23%**
G & A expenses	(1,766)	(1,426)	24%	(533)	(401)	33%
Provisions/ Impairments	(1,820)	(1,653)	10%	(546)	(428)	28%
Taxes	(33)	(20)	64%	(9)	(12)	-26%
Minority Interest	(28)	(17)	67%	(16)	(17)	-6%
Net Income	**4,774**	**4,154**	**15%**	**1,372**	**1,149**	**19%**
Earnings Per Share (AED)	1.54	1.30	18%	-	-	

Balance Sheet (AED Bn)	Dec'13	Dec'12	YoY
Net Loans & Advances	126.9	114.6	11%
Customer Deposits	138.0	119.3	16%
Total Assets	195.0	175.0	11%
Shareholders’ Equity	31.2	29.3	6%

Key Ratios (%)	FY'13	FY'12
Net Interest Margin	3.7	3.7
Cost-to-Income Ratio	21.0	19.6
Non-Performing Loan Ratio	3.3	3.3
Provision Coverage	91.1	96.1
Loan-to-Deposit Ratio	92.0	96.1
Return on Average Equity	15.8	14.8
Return on Average Assets	2.6	2.5
Capital Adequacy Ratio	17.5	21.1

Q4’2013 Income Statement Highlights

FGB achieved record Q4’2013 Net Profits of AED 1,372 million, up 19% from AED 1,149 million in Q4’2012.

Revenues for the quarter were AED 2,475 million, up 23% Year-on-Year, driven by continued strength in Net Interest and Islamic Financing Income, higher fees and commissions, strong investment returns, as well as Marked-to-Market property gains in light of the real estate market recovery witnessed throughout 2013.

Full Year 2013 Income Statement Highlights

FGB Net Profits for 2013 grew 15% Year-on-Year to reach AED 4,774 million. Full Year 2013 Return on Average Equity (RoAE) and Return on Average Assets (RoAA) increased to 15.8% and 2.6% respectively, from 14.8% and 2.5% in 2012.

Revenues amounted to AED 8,421 million, up 16% compared with AED 7,270 million in 2012. Net Interest and Islamic Financing Income added AED 473 million to AED 5,994 million, while Net Interest Margin was maintained at 3.7%.

Other Operating Income substantially increased by 39% Year-on-Year to AED 2,427 million, building on its share in overall revenues at 29% against 24% in 2012. This is the direct result of the Bank's efforts to diversify revenue streams across businesses and geographies.

In 2013, the Wholesale Banking Group and Consumer Banking Group remained the primary revenue contributors with respective shares of 39% and 40%. Treasury & Global Markets Group contributed 13%, while the remaining 8% was generated by the Subsidiaries and Associate Companies of the FGB Group.

Within the Wholesale Banking Group, FGB's international business continued to improve on its performance. In 2013, the Bank's operations in Singapore, India, Qatar and Libya yielded revenues of AED 473 million (up 54% from AED 307 million in 2012) or 6% of the group's total operating income, compared to 4% last year.

In order to support business growth, the Bank continued to invest in its employees and its technology during 2013. This, in addition to the impact of the consolidation of "*Aseel Finance"* and "*Dubai First*", led to a 24% Year-on-Year increase in operating expenses to AED 1,766 million. Nevertheless, cost efficiency at 21% remained highly competitive and in line with management guidance, one of the lowest levels amongst regional peers.

Balance Sheet – Liquidity

On the asset side, Net Loans and Advances grew by 11% to AED 126.9 billion, increasing by AED 12.3 billion from AED 114.6 billion in 2012. FGB's 2013 net loan book includes portfolios of Aseel Finance for AED 1.2 billion and of Dubai First for AED 0.7 billion. Lending activities during the year were distributed across businesses, with 38% contributed from the Wholesale Banking Group and 44% from the Consumer Banking Group.

As the UAE continued to enjoy ample liquidity, FGB's 2013 liquid assets ratio further improved to 19.9%, up from 17.8% in 2012. As deposit growth outpaced loan growth during the period, Loan to Deposit ratio stood at 92.0%, down from 96.1% last year. The Central Bank Advances to Stable Deposit Ratio remained well below the 100% ceiling at a healthy 80.6%.

In November, the Bank issued USD 500 million in 5-year Bonds under its USD 3.5 billion Euro Medium Term Note (EMTN) programme. These bonds have a long-term rating of 'A+' by Fitch and 'A2' with a stable outlook by Moody's, and are listed in London with coupons at a fixed interest rate of 3.25% p.a. This issuance was another reflection of FGB's ongoing strategy to diversify and optimise the maturity profile of its funding base.

Capitalisation and Earnings per Share

FGB's 2013 shareholder equity amounted to AED 31.2 billion, compared to AED 29.3 billion in 2012. The Total Basel II Capital Adequacy Ratio stood at 17.5% and the Tier I Capital Ratio stood at 16.4% - both ratios are post proposed cash dividend distribution.
At AED 1.54, Earning per Share for the full year 2013 is 18% higher than in 2012.

Asset quality and Provisioning

The Bank displays healthy credit quality metrics at the end of 2013. NPL ratio stood at 3.3%, improving from 3.9% in Q3'13. Provision coverage also improved to 91.9%, significantly ahead of the original guidance for the full year. 2013 provisions and impairments amounted to AED 1,820 million, including AED 59 million on available for sale investments.

"We are expecting further progress in credit quality this year as a result of the UAE's improving economic fundamentals. Looking ahead, our outlook for the UAE banking sector is positive, driven by favourable market trends as well as an enhanced regulatory framework," Sayegh said.

Outlook

Abdulhamid Saeed commented: "Last year, First Gulf Bank illustrated its ability to achieve substantial growth in operations across all businesses, and it has reaffirmed its financial and strategic strength with its year-end results. 2013 also marked our firm commitment to enhance our Islamic Banking offering through the acquisition of *Aseel Finance*, and to grow FGB with value-added businesses such as *Dubai First*. This progress and success acts as a spur to push us to work even harder in 2014 and beyond, while ensuring that we capitalise on strategic opportunities that are of benefit to our shareholders and which complement our operations."

Saeed added: "Our strategy going forward is to continue to invest in our people and our systems in order to support the growth of our Wholesale Banking Group, Consumer Banking Group and our Treasury & Global Markets Group businesses. This will allow us to better meet the needs of our clients locally and wherever they need our services abroad. Despite our global vision, we are true to our roots, and acknowledge that we are a local, UAE-based bank. We recognise the importance of our role in the on-going growth, diversification and prosperity of the community in which we are based. We will continue to ensure that our business provides the right support to help ensure the sustainable development of our economy."