

## Management Discussion & Analysis Report

### **FGB Net Profit up 21% in the First Half of 2014 Confirming Strong Earnings Momentum**

- *H1'2014 Net Profit at AED 2,680 Million, 21% higher than in H1'2013; Q2'2014 Net Profit at AED 1,350 Million, a 16 % increase from Q2'2013*
- *Net Improvement in Asset Quality in Q2: Ratio of Non-Performing Loans (NPL) to Gross Loans reduced to 3.0% from 3.4% in Q1'2014, Provision Coverage increased to 110.2%*
- *Loans and advances amounted to AED 128.2 Billion, up 6%; customer deposits also increased by 11% to AED 137.5 Billion*
- *H1'2014 revenues increased by 17% to AED 4,539 Million; Net Interest and Islamic Financing Income grew by 15% to AED 3,247 Million*
- *Core Banking Business represents 95% of Group Revenues*
- *Key Ratios: Net Interest Margin at 3.7%, Cost to Income Ratio at 22.2%, Loan to Deposit Ratio at 93.2%, Capital Adequacy Ratio at 19.0%*
- *Capital Intelligence affirmed the Financial Strength Rating of FGB at 'A+'*

**Abu Dhabi, July 22, 2014:** FGB, one of the leading banks in the UAE, announced its H1'2014 financial results, showing continued and solid performance across all business lines. The Bank's Net Profit stood at AED 2,680 Million, a 21% increase when compared with the same period last year (H1'2013). FGB's net profit for the second quarter of 2014 rose by 16% compared with Q2'2013, to AED 1,350 Million.

FGB's exceptional performance was driven by a strong balance sheet, yielding solid and diversified revenues, improved asset quality metrics and enhanced profitability during the period.

Abdulhamid Saeed, FGB Managing Director and Board Member, said: "The strong results achieved during the first half of 2014 reflect the effectiveness of FGB's strategy to expand and drive the business forward. Exactly one year ago, we reshaped our businesses into three



core pillars: the Wholesale Banking Group, the Consumer Banking Group and the Treasury & Global Markets Group. This allowed us to significantly enhance synergies between our core businesses, deepen our expertise and our product offering across a number of areas, and improve our overall value proposition. We have also successfully integrated both subsidiaries 'Dubai First' and 'Aseel Islamic Finance' into our existing operations, which has strengthened the business and enabled us to better meet the needs of our customers.”

FGB's strong franchise and solid performance were recognised by various leading bodies. The Bank was named the “Best Bank in the UAE” at the 2014 Banker Middle East Industry Awards for the second year in a row and received the “Best Wealth Management Firm” award for the year as well. Furthermore, Forbes Middle East magazine placed FGB in 8<sup>th</sup> position on its 'Top 500 companies in the Arab World' list. FGB was also the 4<sup>th</sup> leading bank (2<sup>nd</sup> in the UAE) on the list and one of only 26 ranked organisations to have been honoured with an exclusive award within the banking category.

Rating agencies have also reaffirmed FGB's strength and leadership. Capital Intelligence, the international credit rating agency, recently announced that it has ranked the Financial Strength Rating (FSR) of FGB at 'A+', with its strong profitability, solid capitalisation, improving liquidity and rising loan-loss reserve coverage ratio being major supporting factors.

André Sayegh, CEO of FGB, commented: “This recognition highlights FGB's outstanding achievements throughout the past year. The solid performance in the first half of 2014 is a continuation in this direction. Our recent rebrand also signifies our aspirations and clear plan to position FGB for long-term sustainable success in the UAE and across geographies. In addition, the recent inclusion of FGB stock in the MSCI Emerging Market Index reaffirms our leadership and our commitment to pursue our efforts towards maximising returns for all our stakeholders.”

## Q2/H1'2014 Summary Financials

<b>Income Statement (AED Mn)</b>	<b>H1'14</b>	<b>H1'13</b>	<b>YoY</b>	<b>Q2'14</b>	<b>Q1'14</b>	<b>QoQ</b>	<b>Q2'13</b>	<b>YoY</b>
Net Interest and Islamic Financing Income	3,247	2,816	15%	1,647	1,601	3%	1,475	12%
Other Operating Income	1,292	1,077	20%	641	650	-1%	543	18%
<b>Operating Income</b>	<b>4,539</b>	<b>3,893</b>	<b>17%</b>	<b>2,288</b>	<b>2,251</b>	<b>2%</b>	<b>2,018</b>	<b>13%</b>
G & A expenses	(1,007)	(802)	26%	(532)	(475)	12%	(416)	28%
Provisions/ Impairments	(828)	(852)	-3%	(392)	(436)	-10%	(418)	-6%
Taxes	(12)	(18)	-33%	(7)	(5)	40%	(14)	-50%
Minority Interest	(12)	(8)	50%	(7)	(5)	40%	(3)	133%
<b>Net Income</b>	<b>2,680</b>	<b>2,213</b>	<b>21%</b>	<b>1,350</b>	<b>1,330</b>	<b>2%</b>	<b>1,167</b>	<b>16%</b>
Earnings Per Share (AED)	0.68	0.54	26%	0.35	0.33	6%	0.28	25%

<b>Balance Sheet (AED Bn)</b>	<b>Jun'14</b>	<b>Mar'14</b>	<b>QoQ</b>	<b>Jun'13*</b>	<b>YoY</b>
Net Loans & Advances	128.2	123.4	4%	120.7	6%
Customer Deposits	137.5	129.6	6%	123.9	11%
Total Assets	198.2	192.9	3%	185.2	7%
Shareholders' Equity	31.0	29.6	5%	28.7	8%

\*Restated in order to reflect the change of accounting treatment of acceptances

<b>Key Ratios (%)</b>	<b>H1'14</b>	<b>Q1'14</b>	<b>QoQ (bps)</b>	<b>H1'13</b>	<b>YoY (bps)</b>
Net Interest Margin	3.7	3.7	-	3.6	10
Cost-to-Income Ratio	22.2	21.1	110	20.6	160
Non-Performing Loan Ratio	3.0	3.4	(40)	3.6	(60)
Provision Coverage	110.2	96.0	1,420	80.1	3,010
Loan-to-Deposit Ratio	93.2	95.2	(200)	99.4	(620)
Return on Average Equity	17.2	17.5	(30)	15.2	200
Return on Average Assets	2.7	2.7	-	2.5	20
Capital Adequacy Ratio	19.0	19.0	-	19.3	(30)

### **Q2'2014 income statement highlights**

FGB's income diversification strategy provided positive results. The new record revenue of AED 2,288 Million represented 13% growth compared to the second quarter of 2013. Net Interest and Islamic Financing income also increased by 12% to AED 1,647 Million. This was primarily the result of improving Net Interest Margin at 3.7% and higher loan balances as loans and advances grew 4% during the quarter.

Non-Interest Revenues also rose by 18% to AED 641 Million when compared to the same period in 2013, including higher contribution from the subsidiaries.

### **Performance in the first half of the year (H1' 2014):**

H1'2014 net profit recorded a solid 21% growth to AED 2,680 Million defining a return on average equity of 17.2%, 200 basis points higher than 15.2% in H1'2013. The bank's H1'2014 revenues were up by 17% compared with the same period last year, to AED 4,539 Million. The Wholesale Banking Group and the Consumer Banking Group each contributed 38% to total revenues, Treasury and Global Markets Group provided 14% of total revenues, while the remaining was generated by subsidiaries and associates. Contribution of international operations to total revenues stood at 5%.

Investment in FGB staff, marketing, and overall infrastructure, as well as the consolidation of Dubai First and Aseel, has led general and administrative expenses to increase by 26% when compared with H1'2013, to AED 1,007 Million. Nevertheless, FGB's group cost-to-income ratio remained unparalleled at 22.2%.

Saeed commented: "We are developing our business, both locally and internationally, which requires investments in a number of areas. This is aimed at ensuring the ongoing development and expansion of FGB's franchise and innovative product and service range to better meet our customers' requirements and to further ensure consistent and sustainable growth of our revenues. Despite the investments made, our cost to income ratio of 22.2% remains the best within our local, regional as well as Emerging Market peer group".

### **Balance Sheet – Liquidity**

FGB continued to maintain healthy liquidity levels in the context of the abundant funds available in the UAE market. Loan growth resumed in Q2'2014 with Loans and Advances increasing by 4% to AED 128.2 Billion. This was driven by growth across various sectors including services, public sector, and retail.

With customer deposits adding 6% to AED 137.5 Billion, the June-end 2014 Loan to Deposits Ratio improved to 93.2%, down from 95.2% in Q1'2014. Similarly, the Regulatory Advances to Stable Deposits Ratio at 80.7% remained well below the regulatory ceiling. The Bank's Liquid Asset Ratio also improved to 18.3% from 16.9% in H1'2013 and the bank is closely monitoring the Liquidity Coverage Ratio (LCR) in anticipation of its enforcement on January 1<sup>st</sup>, 2015.

As part of its ongoing strategy to diversify funding sources and expand into new markets, FGB became the first MENA issuer in the Tokyo Pro-Bond Market, selling a debut JPY 10 Billion (USD 98.2 Million) bond in early July. The five-year bond carried an annual coupon of 0.863% and is part of FGB's USD 1 Billion Tokyo Pro-Bond Market Programme.

Sayegh added: "Throughout the years, we have always maintained comfortable liquidity levels and as such, FGB is in a good position to be fully compliant with the Central Bank's LCR requirements in 2015. The Bank's strong ability to access diverse international capital markets and to raise new and diversified funding is testament to investors' confidence in our strength and ability to deliver on our strategic plans. We are committed to enabling our clients to fulfill their financial goals and aspirations. Moreover, the bank's continued expansion into new markets allows our customers to access valuable opportunities both locally and abroad. In fact, FGB's presence in Asia Pacific was recently enhanced with the launch of a new representative office in Seoul, South Korea and a Global Wealth Management service in Singapore. The bank has also recently launched a representative office in London which offers a new investment gateway for our clients".

### **Capitalisation and Earnings per Share**

By June-end Q2'2014, Total Shareholders' Equity stood at AED 31 Billion, an increase of 8% compared with the same period last year. FGB continues to maintain a robust capital buffer with Capital Adequacy Ratio at 19.0% and Tier 1 capital ratio at 17.7%. Earnings per share for the first six months of 2014 amounted to AED 0.68, which is 26% higher when compared to the same period in 2013.

### **Asset quality and Provisioning**

Asset quality metrics noticeably improved during Q2'2014. Non-Performing Loan Ratio to Gross loans reduced by 40 basis points during the quarter to 3.0%. At the same time, provision coverage increased to 110.2% from 96.0% in March 2014. As of June-end 2014, FGB has a strong position of General Provisions, which amounted to AED 2,235 Million, a 44% increase compared with the same period last year.



Sayegh commented: “The first half of 2014 demonstrates that we have made significant strides in our strategy to provide an all-round service to our customers, through remaining at the forefront of our industry and consistently delivering enhanced products and services to meet the evolving needs of our clients. UAE economic growth has been solid over the past year and real GDP growth is expected to remain above 4% over the medium term. With our solid, efficient and dynamic business structure, FGB is very well positioned to continue developing and capturing new businesses. While being a leading financial institution, we remain deeply committed to playing a major role in the development and prosperity of the UAE. Our operational and financial performance throughout H1’2014 bodes well for the second half of the year and beyond. FGB will continue its journey to achieve sustainable and disciplined growth, whilst ensuring that we live up to our vision to ‘Be First’ to our customers and create more value to all stakeholders.”

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