Management Discussion & Analysis Report

for the first half ended 30 June 2019

Abu Dhabi, 17th July 2019

Management Discussion and Analysis Report

FAB reports record half year 2019 Net Profit of AED 6.3 Billion

Second quarter 2019 net profit of AED 3.2 Billion, up 5% year-on-year

First Abu Dhabi Bank (FAB), the UAE's largest bank and one of the world's largest and safest financial institutions, reported its financial results today for the first half ended 30 June 2019.

Delivering a solid financial performance in the first half of 2019

- Record half year net profit of AED 6.3 Billion, up 4% year-on-year, driven by revenue growth, coupled with continued cost control and prudent risk management
- Second quarter net profit of AED 3.2 Billion, up 4% sequentially and 5% year-on-year
- Annualised Earnings per Share (EPS) at AED1.12, compared to AED 1.08 in the first half of 2018
- Half year Group Revenue up 3% year-on-year, crosses the AED 10 Billion mark
- Operating costs broadly flat year-on-year despite increased investments in digital and strategic initiatives; cost-to-income ratio (ex-integration costs) of 26.1% remains at industry-leading level
- Healthy asset quality with Non-Performing Loan ratio at 3.1% and provision coverage of 111%

Business momentum continues, underpinned by a strong liquidity position, robust capitalisation

- Loans and advances at AED 366 Billion, up 6% year-on-year
- Customer deposits at AED 462 Billion, up 7% year-on-year
- Strong liquidity position with June-end 2019 Liquidity Coverage Ratio (LCR) at 137%, and over AED 12 Billion of term funding raised in the first half of 2019 at a competitive pricing
- Strong capital generation with Basel III Common Equity Tier-1 (CET1) ratio of 13.6%

Commenting on the bank's performance, **Abdulhamid Saeed, Group Chief Executive Officer of FAB**, said:

"I am pleased to report that FAB delivered a record financial performance in the first six months of 2019, as it continues to unlock its full potential as a leading banking franchise. Despite challenging market conditions, the Group achieved year-on year growth in assets, revenue and net profit, while maintaining a strong balance sheet and showing improved asset quality, liquidity and capital ratios. Our risk-adjusted returns have also improved, in line with our commitment to enhance profitability across core businesses and targeted markets. The recent reaffirmation of our AA- credit rating by Standard and Poor's is a strong testament of FAB's robust credit profile and competitive strengths."

"During the first half of the year, we have made significant progress in delivering against our strategic goals. We have reviewed our operations and offerings at a group level, in line with our commitment to place our customers at the heart of all that we do, and have developed new solutions aimed at providing greater convenience and an enhanced experience for both our retail customers and our corporate and investment banking clients. We also continued to be a key partner for the Abu Dhabi government in various avenues from Payments to SME financing. FAB will continue to drive economic growth and diversification in the communities in which we operate, leveraging on our market-leading capabilities to support our stakeholders to grow stronger."

"Looking ahead and despite a softer global outlook, we are confident in our ability to continue to leverage our leading franchise, diversified business model, and strong execution capabilities to deliver sustainable growth and maximise shareholder returns."

Foreign Ownership Limit

In light of the ever-changing global economic landscape, and the benefits of foreign capital flows to support prosperous economies, such as the United Arab Emirates, FAB's Board of Directors discussed the bank's Foreign Ownership Limit in their meeting today.

As part of efforts to support the UAE in attracting capital, foreign investments and in promoting economic growth, the board has proposed to remove FAB's foreign ownership limit cap, with the potential that other public companies in the UAE may apply similar measures. This will support the country's leadership in positioning the UAE amongst one of the most attractive economies for foreign direct investments.

The changes proposed would be subject to the supervision of regulatory authorities and would require amendments to the current laws and policies.

FAB Q2/H1'19 Summary Financials

Income Statement - Summary (AED Mn)	**Q2'19**	Q1'19	*QoQ %*	Q2'18	*YoY %*	**H1'19**	H1'18	*YoY %*
Net interest Income	3,301	3,114	*6*	3,223	*2*	6,415	6,492	*(1)*
Non- interest Income	1,852	1,828	*1*	1,697	*9*	3,680	3,299	*12*
Total Operating Income	**5,153**	**4,942**	***4***	**4,920**	***5***	**10,095**	**9,791**	***3***
Operating expenses	(1,365)	(1,314)	*4*	(1,338)	*2*	(2,679)	(2,664)	*1*
Includes: Integration costs	*(21)*	*(24)*	*(12)*	*(81)*	*(74)*	*(45)*	*(154)*	*(71)*
Impairment charges, net	(467)	(407)	*15*	(423)	*10*	(874)	(863)	*1*
Non Controlling Interests and Taxes	(99)	(114)	*(13)*	(99)	*(0)*	(213)	(207)	*3*
Net Profit	**3,221**	**3,107**	***4***	**3,059**	***5***	**6,328**	**6,057**	***4***
Basic Earning per Share (AED)	1.16	1.08	*7*	1.10	*5*	1.12	1.08	*4*

Balance Sheet - Summary (AED Bn)	**Jun'19**	Mar'19	*QoQ %*	Jun'18	*YoY %*	Dec'18	*Ytd %*
Loans and advances, net	366	359	*2*	345	*6*	353	*4*
Customer deposits	462	433	*7*	431	*7*	465	*(1)*
CASA (deposits)	173	162	*7*	147	*18*	161	*8*
Total Assets	775	733	*6*	692	*12*	744	*4*
Equity (incl Tier 1 capital notes)	101	98	*3*	97	*4*	102	*(1)*
Tangible Equity	70	67	*5*	66	*7*	71	*(1)*

Key Ratios (%)	**Q2'19**	Q1'19	*QoQ (bps)*	Q2'18	*YoY (bps)*	**H1'19**	H1'18	*YoY (bps)*
Net Interest Margin	2.25	2.16	*9*	2.41	*(16)*	2.21	2.45	*(24)*
Cost-Income ratio (ex-integration costs)	26.1	26.1	*(2)*	25.5	*54*	26.1	25.6	*47*
Cost of Risk (bps) (loans & advances)	49	50	*(1)*	53	*(4)*	49	51	*(2)*
Non-performing loans ratio	3.1	3.3	*(21)*	3.1	*0*	3.1	3.1	*0*
Provision coverage	111	106	*484*	123	*lge*	111	123	*lge*
Liquidity Coverage Ratio (LCR)	137	117	*lge*	125	*lge*	137	125	*lge*
Return on Tangible Equity (RoTE)	17.9	17.4	*55*	18.2	*(27)*	17.2	17.1	*13*
Return on Risk-weighted Assets (RoRWA)	2.6	2.5	*5*	2.4	*12*	2.6	2.5	*9*
CET1 ratio	13.6	12.7	*89*	13.1	*52*	13.6	13.1	*52*
Capital Adequacy ratio	16.9	16.0	*93*	16.4	*48*	16.9	16.4	*48*

Notes:

- Comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in the condensed consolidated financial statements.
- Ratios for the quarter are annualised, where applicable
- For further details on calculation of the ratios, please see the Quarterly Series on FAB IR website's financial reports page
- Rounding differences may appear in above table

Operating performance

Half-year 2019 **Group revenue** grew 3% year-on-year to AED 10.1 Billion, driven by balance sheet growth and revenue diversification in a challenging operating environment.

Net Interest Income (including Islamic Financing Income) stood at AED 6.4 Billion, marginally lower year-on-year, reflecting competitive pricing and portfolio optimisation initiatives, as well as increased short-term excess liquidity. This was partially offset by solid business growth and rate hike benefits during the period. In the second quarter, net interest income grew 6% sequentially on the back of higher volumes and interest in suspense reversals. **Net Interest Margin** (NIM) stood at 2.21%, down year-on-year, primarily as a result of a strong increase in short-term liquidity, subsequently deployed into highly liquid yet lower yielding asset classes.

Non-interest income was up 12% year-on-year to AED 3.7 Billion, driven by a robust performance in Global Markets from increased client activity, trading gains and higher portfolio returns, leading to a strong increase in FX and investment income. This was partially offset by lower **fees and commissions**, mainly attributable to portfolio optimisation in personal banking, and lower syndication fees due to subdued loan market volumes in the last quarter. **Other operating income** was lower year-on-year as one-off gains on sale of an office premise realised in the second quarter of 2018 were not repeated.

Operating costs for the half-year period were broadly flat year-on-year to AED 2.7 Billion, underlining cost control and ongoing synergy realisation despite increased investments in digital and strategic initiatives, new talent hires, and higher depreciation costs. **Cost-to-income ratio** (ex-integration costs) for the first half of 2019 stood at 26.1%, and remains at an industry-leading level.

Asset quality

Impairment charges (net) were AED 874 Million in the first half of 2019. **Cost of risk** (on loans and advances) stood at 49 basis points, against 51 basis points the same period last year.

Non-Performing Loans were **AED 11.6 Billion** as of June-end 2019, translating to an NPL ratio of **3.1%,** stable year-on-year and improving from 3.3% as of March-end 2019.

Provision coverage of 111% is adequate as per IFRS9 and UAE Central Bank requirements.

Balance sheet trends

Reflecting continued business momentum in the UAE and targeted markets internationally, **loans and advances** (net) grew 6% year-on-year and 2% sequentially to AED 366 Billion as of June-end 2019. Increased lending to the government and public sector were the main drivers behind this increase, in addition to a pick-up in retail activity in the second quarter.

Customer deposits were up 7% both sequentially and year-on-year to AED 462 Billion. This was partly driven by a double-digit growth in CASA balances as the Group continues to leverage on a strong franchise to capture stable and cost-effective liquidity.

Group liquidity remains strong with a quarter-end **Liquidity Coverage Ratio** (LCR) at 137%, comfortably in excess of the Basel III minimum regulatory requirement of 100%.

On the **wholesale funding** side, the Group raised over AED 12 Billion (USD 3.3 Billion equivalent) of term funding in the first half of 2019 at a competitive pricing from private placements and public issuances, further cementing its position as a leading issuer in the region. Early July, FAB successfully raised a USD 900 Million Formosa bond. The five-year Floating Rate Notes were priced at 90 basis points above 3 month Libor, and listed on the Taipei and London Stock Exchanges.

Capital management

Common Equity Tier 1 (CET1) ratio strengthened to 13.6%, up from 12.7% as of March-end 2019 reflecting strong capital accretion through retained earnings and continued optimisation of risk-weighted assets. FAB's CET1 ratio stands comfortably in excess of the Basel III minimum regulatory requirement of 11%, which includes a 1.5% capital buffer due to our Domestic Systemically Important Bank (D-SIB) status.

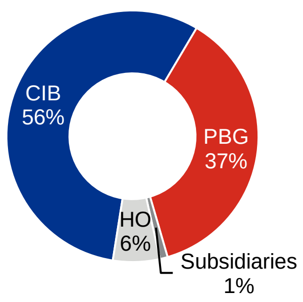
The Group presents robust capital ratios as of June-end 2019 with **Tier 1** and **total capital adequacy ratios** at 15.8% and 16.9% respectively.

Business performance

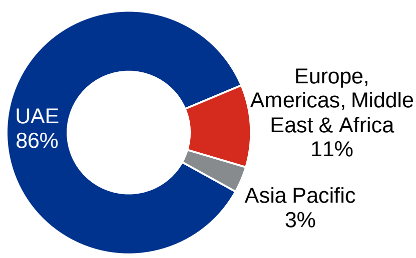
The Corporate & Investment Banking (CIB) Group generated 56% of Group Revenue in the first half of 2019, while the Personal Banking Group (PBG) contributed 37%. Head Office (HO) and Subsidiaries generated 6% and 1% of Group operating income respectively.

Revenue from FAB's **international operations** grew 4% year-on-year, driven by higher contributions from the Middle East and Asia Pacific (APAC).

Revenues by Segment



Revenues by Geography



Corporate & Investment Banking (CIB) Group

Leveraging on a dominant franchise and market-leading solutions, CIB delivered a robust performance in the first half of 2019, achieving growth in balance sheet and revenue despite challenging market conditions.

Loans and advances grew 8% year-on-year reflecting solid business momentum in the UAE and across strategically-targeted international markets, while liquidity position remained strong underpinned by a solid increase in CASA balances. Operating income grew 15%, powered by asset growth and a double-digit increase in non-interest income, largely offsetting softer net interest income primarily due to downward pressure on margins from competitive pricing.

- Against a backdrop of turbulent markets and shifting monetary policies, **Global Markets (GM)** delivered 32% growth in revenue year-on-year, driven by a robust performance from GM sales on the back of enhanced cross-sell and increased client activity, with higher volumes seen across FX and Credit products in FI's and increased deposit placements by Government and related entities. Successful strategies to drive higher returns from credit trading, investments, and ALM portfolios were also key contributors to top line growth.
- **Global Transaction Banking (GTB)** revenue grew 12% year-on-year, driven by a 41% increase in Cash Management income on the back of higher rates and new client mandates, partly offset by lower income from overdrafts and Islamic transaction banking. In line with Group efforts to enhance customer experience and convenience, client onboarding through digital channels saw a strong growth year-to-date. Furthermore, FAB along with Etisalat and seven other UAE banks signed an agreement in June 2019 to jointly develop UAE Trade Connect (UTC), a national platform for digitising trade finance in the UAE. FAB took a leading role in developing UTC, which uses disruptive technologies like blockchain, AI, robotics and machine learning to digitise trade and combat fraud.
- **Global Corporate Finance (GCF)** had a solid performance leveraging strong origination and distribution capabilities to drive deal execution across Loan and Debt Capital Markets. Although competitive pricing continued to adversely impact net interest margins, fee-based business continued to expand, demonstrating GCF's strong ability to capture ancillary business and diversify income streams. A healthy pipeline in the UAE and across targeted international markets, is expected to support momentum through the second half of the year. Despite a subdued loan market compared to 2018, FAB grew market share and maintained top position in regional league tables as the #1 ranked Bookrunner and Agent for MENA loans in the first half of 2019. The bank was also ranked as the #1 Agent Bank of Asia, and the #5 Bookrunner of International Sukuk for the first half of the year.

Personal Banking Group (PBG)

The Personal Banking Group achieved a solid performance with growth in revenue and net profits in the second quarter and continuous improvement in risk-adjusted returns highlighting successful portfolio optimisation initiatives.

Loans and advances were up sequentially indicating a pick-up in activity following system stabilisation, as well as progress in delivering better customer experience through enhanced products, channels, and processes. On the liability side, retail CASA balances recorded a solid increase year-on-year.

During the period, migration of customers onto digital channels led to a strong growth in mobile registrations and digital transactions.

Payments remained a strategic focus with a growth in key merchant acquiring clients, as well as strategic alliances with market leaders. Acquisition onto Payit, the first fully-featured digital wallet in the UAE, continued to gain pace, with further momentum expected following the recent tie-up with Moneygram that enables safe and seamless cross-border money transfers to over 200 countries and territories.

We continued to improve our offering for business banking customers through the launch of our World Business Debit Card, designed to provide a competitive edge to SMEs, who can save time and money through a host of innovative features and a benefits. Recently, the bank signed an agreement with the Abu Dhabi government in order to extend state-backed loans to SMEs in the context of the economic stimulus package Ghadan 2021 and as part of an ambitious roadmap to drive economic growth and diversification over the next three years.

Our offering for Private Banking and Elite clients was enhanced through improvements to our client management systems and the introduction of a range of new funds and other products. As a result, we saw strong momentum in CASA, mortgages and investments. With the opening of our first branch in Riyadh, PBG is making further strides in its strategy to leverage on a leading UAE franchise to add value and deliver growth in targeted markets.

H1 2019 Economic Overview and Outlook

Amid market uncertainties around trade and interest rates, the global growth outlook is expected to be challenging going forward. Regionally, this will be partly offset by the impact of extended OPEC oil production cuts, thereby helping to underpin oil prices and maintain net positive dynamics for the oil producing GCC region. In light of these forecasts, we now expect the UAE economy (real GDP) to expand from 1.7% in 2018 to 2.5% this year, down from our previous forecast of 3.2%. Notwithstanding the negative ramifications of global uncertainty, the UAE's robust fundamentals, the announced economic stimulus packages and structural reforms, and the upcoming Expo 2020, are expected to translate to improving economic conditions and fuel further growth and diversification over the medium term.

Recent Awards

About First Abu Dhabi Bank (FAB)

FAB, the UAE's largest bank and one of the world's largest and safest institutions, offers an extensive range of tailor-made solutions, and products and services, to provide a customised experience. Through its strategic offerings, it looks to meet the banking needs of customers across the world via its market-leading Corporate and Investment Banking and Personal Banking franchises.

Headquartered in Abu Dhabi in Khalifa Business Park, the bank's international network spans five continents, providing the global relationships, expertise and financial strength to support local, regional and international businesses seeking to do business at home and abroad.

In line with its commitment to put customers first, to Grow Stronger, FAB will continually invest in people and technology to create the most customer-friendly banking experience, and will support the growth ambitions of its stakeholders across countries in which the bank operates.

To empower its customers and clients to Grow Stronger, FAB initiated a powerful movement, which goes beyond banking. The Grow Stronger movement represents the bank's promise to support its stakeholders' goals and growth ambitions, providing ideas, tools and expertise to help them become stronger, today and in the future.

With total assets of AED 775 Billion (USD 211 Billion) as of June-end 2019, FAB is rated Aa3/AA-/AA- by Moody's, S&P and Fitch, respectively, the strongest combined ratings of any bank in the MENA region. The Bank has been ranked by Global Finance® as the safest bank in the UAE and the Middle East. The Banker Magazine, has named FAB as the second largest bank in the Middle East by Tier 1 Capital in its Top 1000 World Banks 2019 ranking. FAB is well positioned to unlock the full potential of a unified bank with a strong focus on customer experience, digitisation and continued growth, as we enter the next phase of our journey to grow stronger.

For further information, visit: www.bankfab.com

For investor-related queries, please contact FAB Investor Relations team on ir@bankfab.com

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