

Management Discussion & Analysis Report

for the first quarter ended 31 March 2019

Abu Dhabi, 29th April 2019

Management Discussion and Analysis Report

FAB reports record first quarter 2019 Net Profit of AED 3.1 Billion

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 for the first quarter ended 31 March 2019 today.

Solid operating performance

- Record net profit of AED 3.1 Billion, up 6% sequentially and 4% year-on-year
- Annualised Earnings per Share (EPS) at AED 1.08, compared to AED 1.06 in the first quarter of 2018
- Operating income at AED 4.9 Billion, up 3% quarter-on-quarter and 1% year-on-year
- Operating expenses at AED 1.3 Billion, reflecting cost discipline and synergy realisation
- Cost-to-income ratio (ex-integration costs) at an industry-leading level of 26.1%

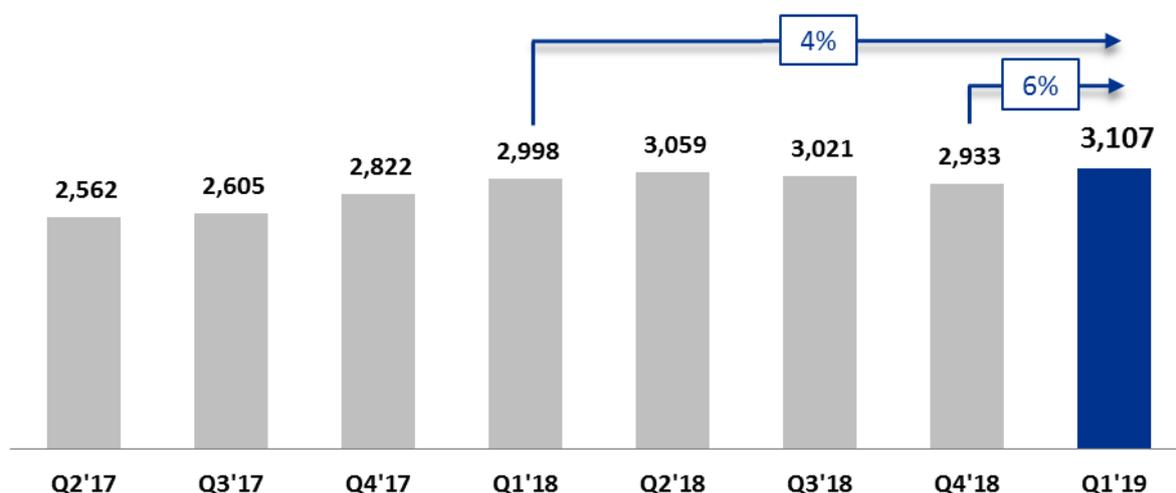
Healthy business momentum supported by a strong liquidity profile

- Total assets at AED 733 Billion, up 8% year-on-year
- Loans and advances at AED 359 Billion, up 6% year-on-year
- Customer deposits at AED 433 Billion, up 7% year-on-year
- Strong liquidity position with Liquidity Coverage Ratio (LCR) at 117%

A robust foundation set up for growth

- Healthy asset quality metrics with Non-Performing Loan ratio at 3.3% and adequate provision coverage at 106%
- Solid capital position, following a record dividend pay-out, with fully phased-in Basel III Common Equity Tier-1 (CET1) ratio and total Capital Adequacy Ratio (CAR) improving to 12.7% and 16.0% respectively

Quarterly Net Profit trend since legal merger
(in AED Mn)



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

"Building on the positive momentum generated last year, FAB achieved a solid performance during the first quarter of 2019 with a record net profit of AED 3.1 Billion, delivering a unified customer experience through our integrated platform and placing us firmly on track to execute our 2019 strategic agenda. Increasing our foreign ownership limit to 40%, which was approved by shareholders in February and implemented this month, was a notable milestone supporting higher liquidity on our shares and attracting further international investment."

"Our performance during the first three months of 2019 has created a robust foundation for sustained growth momentum and we remain optimistic about the remainder of the year. Our successful integration and solid fundamentals have enabled us to improve our profitability, while continuing to prudently manage risk across our portfolios. As we move into the second quarter, the bank will continue to leverage its competitive advantages, while further developing our retail offering and strengthening our market-leading position in corporate and investment banking."

He added: "As the UAE's largest bank, we are committed to aligning with key government priorities and to supporting local communities to grow stronger, which is exemplified by our involvement in initiatives like the *Ghadan 2021* development plan and the Abu Dhabi Social Support Authority programme for low-income Emirati families. Through working with private and public sector organisations, FAB will continue to solidify its status as an engine of growth for the UAE and the region, while continuing to focus on meeting our medium term aspirations."

FAB Q1'19 Summary Financials

Income Statement - Summary (AED Mn)	Q1'19	Q4'18	QoQ %	Q1'18	YoY %
Net interest Income	3,114	3,271	(5)	3,268	(5)
Fees & commissions, net	816	794	3	937	(13)
FX and investment income, net	971	802	21	653	49
Other non-interest income	41	(58)	na	13	218
Total Operating Income	4,942	4,810	3	4,871	1
Operating expenses	(1,314)	(1,355)	(3)	(1,326)	(1)
<i>Includes: Integration costs</i>	(24)	(67)	(64)	(74)	(68)
Impairment charges, net	(407)	(428)	(5)	(439)	(7)
Non Controlling Interests and Taxes	(114)	(93)	22	(108)	6
Net Profit	3,107	2,933	6	2,998	4
Basic Earning per Share (AED)	1.08	1.04	3	1.06	2

Balance Sheet - Summary (AED Bn)	Mar'19	Dec'18	QoQ %	Mar'18	YoY %
Loans and advances, net	359	353	2	338	6
Customer deposits	433	465	(7)	404	7
CASA (deposits)	162	161	1	169	(4)
Total Assets	733	744	(1)	678	8
Equity (incl Tier 1 capital notes)	98	102	(4)	94	4
Tangible Equity	67	71	(6)	63	6

Key Ratios (%)	Q1'19	Q4'18	QoQ (bps)	Q1'18	YoY (bps)
Net Interest Margin	2.16	2.21	(5)	2.49	(33)
Cost-Income ratio (ex-integration costs)	26.1	26.8	(69)	25.7	39
Cost of Risk (bps) (loans & advances)	50	38	12	50	(0)
Non-performing loans ratio	3.3	3.2	12	3.1	14
Provision coverage	106	110	(373)	127	na
Liquidity Coverage Ratio (LCR)	117	118	(109)	112	500
Return on Tangible Equity (RoTE)	17.4	15.7	166	17.4	(1)
Return on Risk-weighted Assets (RoRWA)	2.5	2.3	18	2.5	6
CET1 ratio	12.7	12.4	34	12.4	36
Capital Adequacy ratio	16.0	15.7	26	15.7	34

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

Financial review

Operating performance

Group Revenue for the first three months of 2019 was AED 4.9 Billion, improving 3% sequentially and 1% year-on-year, driven by the solid and resilient performance of our core businesses in the first quarter post integration.

Net Interest Income (including Islamic Financing Income) was AED 3.1 Billion, 5% lower sequentially and year-on-year, as volume growth and rate hike benefits were offset by competitive pricing and risk optimisation. Net Interest Margin (NIM) for the period stood at 2.16%, lower compared to Q1'18, primarily due to increasing placements into highly liquid yet lower-yielding asset classes.

Net fees and commissions at AED 816 Million, grew 3% sequentially on the back of higher business volumes and strength in loan and debt capital markets where the bank continues to demonstrate regional leadership, offsetting lower trade-related fees. Fees and commissions were lower compared to Q1'18 primarily reflecting risk optimisation in Personal Banking for higher risk-adjusted returns.

FX and investment income rose 49% year-on-year, on the back of higher returns from the deployment of short-term liquidity, enhanced cross-sell, and strength in flow products. They were up 21% sequentially as recovery in financial markets and improving sentiment in the last quarter led to a strong performance across FX, credit trading and sales. **Other operating income** was up compared to Q4'18 which included non-recurring fair value losses on investment properties.

Group operating expenses were AED 1.3 Billion, down 1% year-on-year, on lower integration costs, cost discipline and synergy realisation. This was partially offset by higher depreciation costs and investments in digital and strategic initiatives in order to support future business growth and better customer experience.

Cost-to-income ratio (ex-integration costs) stood at 26.1%, and remains at an industry-leading level.

Asset quality

Impairment charges (net) for the period were AED 407 Million, compared to AED 439 Million in the first quarter of 2018, translating to a **cost of risk** (on loans and advances) in line with the prior year at 50 basis points.

Group asset quality is healthy with **NPL ratio** at 3.3%, while **provision coverage** of 106% is adequate as per IFRS9 and UAE Central Bank requirements.

Balance sheet trends

Total assets grew 8% year-on-year to AED 733 Billion, primarily driven by an increase in loans and investments reflecting continued focus on optimising asset allocation.

Loans and advances were AED 359 Billion as of quarter-end, an increase of 6% year-on-year and 2% sequentially driven by higher public sector lending and trade financing.

Customer deposits were AED 433 Billion, up 7% year-on-year on increased government deposits, and, lower by 7% compared to December-end 2018 due to short-term deposit outflows. The bank's liquidity position remains strong with **Liquidity Coverage Ratio** (LCR) at 117% as of quarter-end, comfortably above the minimum regulatory requirement of 100% as per Basel III.

Current Accounts and Saving Accounts (CASA) balances grew sequentially to AED 162 Billion, led by retail liabilities, and represent 37% of customer deposits.

The Group had a strong start to 2019 on the **wholesale funding** side, raising USD 1.8 Billion (AED 6.6 Billion) of term funding in the last quarter, including a USD 1 Billion 5-year Public RegS Sukuk. In April, the Group also issued its debut public Floating Rate Note, raising USD 1.1 Billion (AED 4.0 Billion) across a dual-listed Formosa 3-year transaction and further cementing its position as a leading issuer.

FAB's leading franchise, solid credit profile and superior credit ratings of AA- (or equivalent), continue to be key differentiators, enabling the Group to source diversified and cost-effective funding.

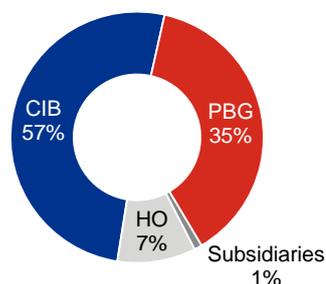
Equity (including Tier 1 capital notes) was AED 98 Billion as of quarter end, following a record AED 8.1 Billion dividend pay-out for 2018. FAB's **Common Equity Tier 1 (CET1)** ratio improved to 12.7% from 12.4% in the first quarter of 2018, comfortably above the fully phased-in Basel III minimum regulatory requirement of 11%, which includes a 1.5% capital buffer due to FAB's status as a Domestic Systemically Important Bank (D-SIB). **Tier 1 ratio** and **total capital adequacy ratios** also improved year-on-year to 14.8% and 16.0% respectively.

Business performance

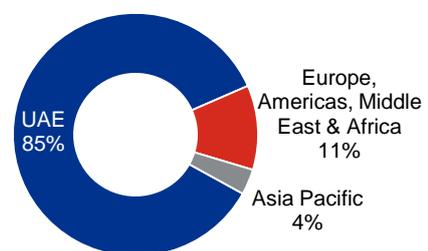
The Corporate & Investment Banking (CIB) Group generated 57% of Group Revenue in the first quarter of 2019, while the Personal Banking Group (PBG) contributed 35%. Head Office (HO) and Subsidiaries generated 7% and 1% of Group operating income respectively.

Revenue from FAB's **international operations** grew 2% year-on-year, with their associated contribution to Group Revenue at 15%.

Revenues by Segment



Revenues by Geography



Corporate & Investment Banking (CIB) Group

FAB's market-leading CIB franchise delivered another solid performance in the first three months of 2019, underlining broad-based momentum across all areas of the business despite increased competition and a challenging market environment.

Marking its 6th consecutive quarter of growth, operating income improved 6% sequentially and 15% year-on-year. This was driven by strong performances across Global Markets, cash management, and loan and debt capital markets. Non-interest income recorded a double-digit growth in the last quarter on the back of strong business volumes, enhanced focus on cross-sell and flow products, and markets recovery, largely offsetting softer net interest revenue due to competitive pricing. Costs remained tightly controlled during the period, while asset quality remained solid.

On the balance sheet, liquidity position remained strong with a loans-to-deposit ratio at 78% as of quarter-end, underpinned by optimised short-term liquidity, and continued diversification of funding sources.

Other key highlights by product group in Q1 2019:

- **Global Markets (GM)** achieved double-digit growth in revenue sequentially and year-on-year as a result of higher returns from the investment portfolio, and growth in flow products. While GM sales delivered strong results, FX and trading revenue benefited from a notable improvement in sentiment in the first quarter positively impacting asset prices.
- **Global Corporate Finance (GCF)** revenue grew year-on-year leveraging on market-leading product capabilities to capture business across Loan and Debt Capital Markets. FAB continued to demonstrate leadership by dominating regional league tables in Q1'19 as the top ranked Bookrunner and agent for MENA and GCC syndicated loans, and acting for the first time as a Global Coordinator on a debut Sukuk transaction in Saudi Arabia through FAB Capital.
- **Global Transaction Banking (GTB)** recorded a strong operating performance driven by Cash Management on the back of rate hikes, new client mandates, and the conversion of escrow business opportunities. With over 70% of payments and payroll transactions executed through electronic channels, and a substantial increase of clients using remote cheque deposits, the business remains focused on driving digitisation and elevating customer experience.

Personal Banking Group (PBG)

PBG recorded a resilient performance in the first quarter of 2019, with the business delivering a unified customer experience on its new platform following the completion of systems integration in early December 2018.

Although Q1'19 revenue was lower compared to the corresponding period last year primarily due to risk optimisation, impairment charges significantly reduced, resulting in higher risk-adjusted returns.

Balance sheet liquidity improved, with an increase in CASA balances in the last quarter, while loans and advances were in line with the previous quarter reflecting selective growth in targeted segments including mortgages, Islamic banking and business banking.

PBG continued to make tangible progress to deliver on its strategic priorities, including in Saudi Arabia where the bank will officially inaugurate its first branch in Riyadh within the next few days.

In the last quarter, FAB partnered with the Abu Dhabi Social Support Authority (ADSSA) to launch an innovative financial aid programme for low-income Emirati families. The state-of-the-art Application Based Programming (API) solution provided by the bank allows recipients to quickly and efficiently access funds, while reducing administrative processes for the Authority. Furthermore, the Abu Dhabi National Insurance Company (ADNIC) has partnered with FAB to offer customers new payment options through 'Payit'.

As the business continues to focus on fostering innovation and offering value-add products and solutions to customers, FAB recently won the "Retail Tech" award at Seamless Awards 2019. This award recognised the bank's leadership in the retail space for implementing technology to deliver outstanding customer experience through a tailored state-of-the-art payments solution.

Moving forward, FAB will continue to leverage its leading market position and unified platform to drive growth in personal banking and continuously enhance banking experience for customers across all segments, distribution channels and geographies.

Q1 2019 Economic Overview

While global growth expectations were revised lower, a more dovish monetary policy outlook underpinned risk appetite, driving a renewed bid for yield. Concerns over Brexit have also acted as a further anchor to the rates outlook, a dynamic that now looks set to continue to impact investor sentiment in the near term.

In the Middle East, the economic outlook remains broadly positive on the back of recovering oil prices and fiscal easing. Although lower than anticipated in 2018 at 1.7%, real GDP growth in the UAE is expected to recover to 3.2% in 2019 on the back of higher oil prices and domestic catalysts, including stimulus packages supporting public spending, private sector investments and Expo 2020. Inflation is also expected to remain low despite the introduction of value added tax in 2018.

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 733 Billion (USD 200 Billion) as of March-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. In the Top 1000 World Banks 2018 ranking by The Banker Magazine, FAB ranks #1 in the Middle East and #81 in the World by capital strength, and #116 by total assets globally. Through a strong, diversified balance sheet, leading efficiency and a solid corporate governance structure in place, FAB is set to drive growth forward.

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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