

MANAGEMENT DISCUSSION & ANALYSIS REPORT



**Grow
Stronger**

بنك أبوظبي الأول

FAB

First Abu Dhabi Bank

FAB reports Group Net Profit of AED 5.4 Billion for the first half of 2021

Second quarter net profit at AED 2.9 Billion, up 19% year-on-year

A strong set of results

H1'21 net profit¹ at AED 5.4 Billion,
up 11% year-on-year

Q2'21 net profit at AED 2.9 Billion, up 16%
sequentially and 19% year-on-year driven by
a double-digit growth in non-interest income

Annualised Earnings Per Share (EPS) at 96 fils,
up 14% compared to the first half of 2020

H1'21 operating income at AED 9.6 Billion,
up 2% year-on-year

Impairment charges at AED 1.1 Billion, down 36%
year-on-year, reflecting improving economic
conditions, and adequate provision buffers

Operating costs at AED 2.8 Billion, up 7%
year-on-year reflecting ongoing investments
in strategic and digital initiatives

Solid ratios continue to demonstrate balance sheet strength

Total assets at AED 944 Billion,
up 3% year-to-date

Customer deposits at AED 575 Billion,
up 6% year-to-date and 1% sequentially

Loans and advances at AED 399 Billion,
up 3% year-to-date and 5% sequentially

Strong liquidity position with Liquidity
Coverage Ratio (LCR) at 119%

NPL ratio at 3.9%, with provision
coverage at 97%

Common Equity Tier 1 (CET1)
at 13.0% is comfortably
above regulatory requirements

Earnings Per
Share (EPS)

96 fils

H1'20: 84 fils

Return on Tangible
Equity (RoTE)

13.6%

H1'20: 12.5%

Cost-to-
Income Ratio

28.3%

H1'20: 27.3%

CET1
Ratio

13.0%

Jun'20: 13.6%

Liquidity
Coverage Ratio

119%

Jun'20: 129%

Annualised

Ex-integration costs

Abu Dhabi, UAE (28 July 2021):

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 half period ended 30 June 2021.

First half 2021 Group Net Profit was AED 5.4 Billion, a 11% increase year-on-year driven by revenue growth from a solid performance across our core businesses despite headwinds from rate cuts, increased contribution from our international operations following the recent acquisition in Egypt, and lower impairment charges. Cost discipline was maintained amid ongoing investments in strategic and digital initiatives with cost-to-income ratio (ex-integration costs) at an industry-leading level of 28.3%. Growth in lending and investments during the period demonstrate effective balance sheet deployment to enhance returns, while the Group's foundation remains robust across liquidity, capital and asset quality.

¹Q2/H1'21 results include financials of Bank Audi Egypt (BAE) effective post legal day 1 on 28 April, 2021



HANA AL ROSTAMANI

GROUP CHIEF EXECUTIVE OFFICER

Our solid results in the first half of 2021, with Group net profit increasing 11% year-on-year to AED 5.4 Billion, are a testament to the successful execution of our strategic priorities, and our tenacious ability to drive our competitive position while capitalising on the opportunities presented by an improved backdrop.

Demonstrating the unique strength of our diversified franchise, we've achieved solid growth across our core businesses. In Corporate & Investment Banking (CIB), we continued to support and partner with our clients in navigating the gradual economic recovery and focused on driving specialisation in key areas, particularly investment banking, leading to a double-digit growth in revenue. Our client-centric strategy and leading role in several landmark deals across the region further cemented our position as the top-ranked regional bank across all MENA investment banking league tables, and the only bank ranked in the top 10 across all categories. At the same time, continued momentum in acquisition volumes, consumer spend surpassing pre-pandemic levels, and ongoing digitisation, helped sustain Personal Banking's operating performance during the last quarter.

Our international franchise remains one of our key competitive differentiators, enabling us to offer enhanced connectivity to our clients, and to capture growing trade and investment flows. During the period, we have made excellent progress in our strategy to gain market share and increase penetration in targeted markets in our core region. Revenue from MENA grew 67% in the second quarter and 51% in the half year, led by Saudi Arabia and Egypt, and now represent almost half of revenues generated from our international operations.

As we remain firmly focused on creating superior and sustainable value for our shareholders, we continue to invest in our key enablers to power business growth. The acceleration of our digital transformation resulted in a significant enhancement of our digital servicing capabilities for our corporate and retail customers, driving further improvements in customer experience and higher Net Promoter Score (NPS). As an ESG leader, we are also determined to drive our sustainability agenda as we continue to embed ESG across the organisation.

Looking ahead and while uncertainties remain, we are confident that our distinct competitive strengths, proven agility, and innovative spirit, position us well to unlock opportunities for our clients, people, communities and all our stakeholders across the global markets we operate in.





JAMES BURDETT

GROUP CHIEF FINANCIAL OFFICER

The Group recorded a net profit of AED 2.9 Billion in the second quarter of 2021, up 16% sequentially and 19% year-on-year, bringing our first-half net profit to AED 5.4 Billion.

This strong result was driven by 18% revenue growth sequentially, led by a very strong performance in CIB from our investment banking businesses, sustained results in Personal Banking, and higher contribution from our international operations following Bank Audi Egypt acquisition. Impairment charges were lower year-on-year on the back of a significantly improved backdrop compared to the economic conditions at the height of the pandemic during the first half of 2020, founded on a high quality asset portfolio underpinned by prudent risk management. We continue to invest in products, people and technology, which are key enablers to support our future performance while maintaining cost discipline and industry-leading operating efficiency.

While our liquidity profile remains strong, we continue to deploy our balance sheet profitably to enhance Group returns, with ample capacity to support our client franchise through the economic recovery.

The Group also achieved notable milestones in the IBOR² transition: FAB is leading the MENA region in the transition to Alternate Reference Rates (ARRs) having signed the first day-1 SOFR³ deal with a GCC government-related entity, and issuing its inaugural SOFR-linked note. In recognition of the Group's achievement, FAB won the 'Deal of the Year – LIBOR Transition' by MTN-I Awards for the bank's inaugural GBP denominated SONIA⁴ private placement in September 2020.

Our strong capital generation capacity through higher retained earnings and continued optimisation of our risk-weighted assets is enabling us to maintain solid capital ratios, meet evolving regulatory requirements, and build the right foundations to support business growth and sustainable shareholder returns.



²IBOR – Interbank Offered Rate

³SOFR - Secured Overnight Financing Rate

⁴SONIA - Sterling Overnight Index

Q2/H1'21 SUMMARY FINANCIALS

Income Statement - Summary (AED Mn)	Q2'21	Q1'21	QoQ %	Q2'20	YoY %	H1'21	H1'20	YoY %
Net interest Income	2,802	2,679	5	3,244	(14)	5,482	6,323	(13)
Non- interest Income	2,390	1,703	40	1,551	54	4,093	3,038	35
Total Operating Income	5,193	4,382	18	4,795	8	9,575	9,361	2
Operating expenses	(1,451)	(1,318)	10	(1,236)	17	(2,768)	(2,589)	7
Operating profit	3,742	3,064	22	3,559	5	6,807	6,772	1
Impairment charges, net	(677)	(470)	44	(1,060)	(36)	(1,147)	(1,799)	(36)
Non Controlling Interests and Taxes	(187)	(118)	58	(87)	116	(306)	(154)	98
Net Profit	2,878	2,476	16	2,411	19	5,354	4,820	11
Basic Earning per Share (AED)	1.04	0.88	18	0.86	20	0.96	0.84	14

Balance Sheet - Summary (AED Bn)	Jun'21	Mar'21	QoQ %	Jun'20	YoY%	Dec'20	Ytd%
Loans and advances, net	399	378	5	385	4	387	3
Customer deposits	575	568	1	519	11	541	6
CASA (deposits)	252	250	1	196	29	223	13
Total Assets	944	941	0	866	9	919	3
Equity (incl Tier 1 capital notes)	106	103	3	98	8	109	(3)
Tangible Equity	75	73	4	70	8	79	(4)

Key Ratios (%)	Q2'21	Q1'21	QoQ (bps)	Q2'20	YoY (bps)	H1'21	H1'20	YoY (bps)
Net Interest Margin	1.51	1.47	4	1.90	(39)	1.49	1.90	(41)
Cost-Income ratio (ex-integration costs)	27.3	29.6	(228)	25.5	175	28.3	27.3	102
Cost of Risk (bps) (loans & advances)	63	51	12	108	(45)	56	87	(31)
Non-performing loans ratio	3.9	4.0	(7)	3.9	1	3.9	3.9	1
Provision coverage	97	96	23	91	568	97	91	568
Liquidity Coverage Ratio (LCR)	119	141	<-999	129	(997)	119	129	(997)
Return on Tangible Equity (RoTE)	15.1	12.8	236	13.8	130	13.6	12.5	107
Return on Risk-weighted Assets (RoRWA)	2.2	2.0	21	1.9	25	2.0	2.0	8
CET1 ratio (post-dividends)	13.0	13.7	(63)	13.6	(56)	13.0	13.6	(56)
Capital Adequacy ratio	16.1	16.9	(80)	16.4	(23)	16.1	16.4	(23)

Notes:

- Comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in the 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
- To view key figures in USD, please refer to the dedicated page on the IR section of our corporate website: <https://www.bankfab.com/en-ae/about-fab/investor-relations/reports-and-presentations/key-annual-figures>
- Rounding differences may appear in above table

OPERATING PERFORMANCE

Operating Income (AED Mn)	Q2'21	Q1'21	QoQ %	Q2'20	YoY %	H1'21	H1'20	YoY %
Net interest Income	2,802	2,679	5	3,244	(14)	5,482	6,323	(13)
Non-interest Income	2,390	1,703	40	1,551	54	4,093	3,038	35
Fees & commissions, net	769	663	16	637	21	1,432	1,478	(3)
FX and investment income, net	1,618	677	139	371	336	2,294	974	135
Other non-interest income	4	363	(99)	543	(99)	367	586	(37)
Total Operating Income	5,193	4,382	18	4,795	8	9,575	9,361	2

Group Revenue for the first half ended 30 June 2021 was AED 9.6 Billion, up 2% year-on-year. Second quarter revenue was AED 5.2 Billion, up 18% sequentially and 8% year-on-year, led by double-digit growth in non-interest income and acquisition of Bank Audi Egypt (BAE)⁵.

Net Interest Income (including Islamic financing income) (NII) was AED 5.5 Billion, 13% lower year-on-year, primarily due to the adverse impact of rate cuts partially offset by volume growth and the consolidation of Bank Audi Egypt (BAE) during the last quarter, as well as higher interest in suspense reversals in the prior comparative period. Net Interest Margin (NIM) in the first half was 1.49% compared to 1.90% in H1'20.

Non-interest income grew in high double-digit across all periods, primarily driven by a robust performance in Global Markets during the second quarter from higher trading gains and portfolios returns, leading to a substantial increase in Fx and investment income. Fees and commissions grew 16% sequentially in Q2'21 driven by increased lending and trade-related activity.

Operating expenses increased 10% sequentially as a result of ongoing investments in digital and strategic initiatives, and higher integration costs. **Cost-to-income ratio** (ex-integration costs) for H1'21 was 28.3%, within management guidance.

ASSET QUALITY

Non-Performing Loans were AED 16.2 Billion as of June-end 2021, up 4% sequentially, with the NPL ratio at 3.9%.

Net impairment charges were AED 1.1 Billion in the first six months of 2021, 36% lower year-on-year, helped by recoveries and improved macro-economic projections, translating to a cost of risk of 56 basis points. Total ECL / provisions⁶ were AED 15.7 Billion, representing an adequate **provision coverage ratio** of 97%, compared to 91% the prior comparative period and 95% at end-2020.

Payment deferrals provided to customers under the UAE Central Bank Targeted Economic Support Scheme (TESS), amounted to AED 3.5 Billion as of June-end 2021, compared to AED 4.4 Billion as of March-end 2021.

⁵From the date of acquisition (28 April 2021) until 30 June 2021, BAE contributed revenue of AED 156 Million to the Group's results. Refer to Note #31(e) in the financials for the first half ended 30 June 2021

⁶ECL/Provisions is defined as ECL on loans & advances + ECL on unfunded exposures + IFRS9 impairment reserves

BALANCE SHEET TRENDS

Total assets were AED 944 Billion as of June-end 2021, up 3% year-to-date and relatively flat sequentially.

Loans and advances (net) were up 5% in the second quarter (AED 21 Billion) to AED 399 Billion driven by corporate lending, short-term secured trade FI assets and growth in the retail portfolio led by international. This brings half-year loan growth to 3% due to repayments and the run-down of non-strategic assets during the first quarter.

Customer deposits at AED 575 Billion, were up 6% year-to-date and 1% sequentially, with continued growth in Current Account and Savings Account (CASA) balances, reaching AED 252 Billion as of June-end 2021, representing 44% of total deposits.

The Group's liquidity position remains strong with June-end 2021 **Liquidity Coverage Ratio (LCR)** at 119%, comfortably in excess of Basel III minimum regulatory requirement of 100%, as well as the minimum of 70% established by the UAE Central Bank as part of temporary liquidity relief measures under TESS.

In the first half of 2021, FAB has raised USD 3.4 Billion of **senior wholesale funding** across multiple formats and 9 different currencies, taking advantage of strong market conditions in the earlier part of the year to issue public transactions, and navigating volatility caused by the movement in USD interest rates in March and April. FAB continues to focus on its Green and Sustainable-linked funding activity issuing a CNH 150 Million Green Bond Private Placement in the second quarter, cementing FAB's position as regional and global leader in the Green Bond market and taking the total of Green Bonds outstanding over USD 1 Billion equivalent across 6 issuances and 4 different currencies.

FAB is leading the MENA region in the transition to Alternate Reference Rates (ARRs). The Group signed the first day-1 SOFR³ deal with a GCC government-related entity and recently issued its inaugural SOFR bond in the form of a 3-year private placement which is also the first from the UAE. These represent notable milestones in the IBOR transition, with FAB as the only MENA issuer with SOFR and SONIA-linked notes.

EQUITY, CAPITAL AND RETURNS

Total shareholders' equity (including Tier 1 capital notes) stood at AED 106 Billion. **Basel III Common Equity Tier 1 (CET1)** ratio stood at 13.0% as of June-end 2021, compared to 13.7% as of March-end 2021, primarily reflecting the impact of the implementation of Basel III requirements, partly offset by higher retained earnings. Group CET1 stands comfortably above the minimum regulatory requirement of 11% and the threshold of 8% under TESS until December-end 2021. **Capital adequacy** and **Tier 1 capital** ratios were 16.1% and 15.0%, versus 16.5% and 15.4% respectively as of December-end 2020.

Annualised **Return on Tangible Equity (RoTE)** and **Return on Risk Weighed Assets (RoRWA)** were 13.6% and 2.0% for H1'21, compared to 12.5% and 2.0% respectively in H1'20.

BUSINESS PERFORMANCE⁷

AED Mn	Q2'21	Q1'21	QoQ %	Q2'20	YoY %	H1'21	H1'20	YoY %	H1'21 Contr%
Revenues	5,193	4,382	18	4,795	8	9,575	9,361	2	
CIB	3,748	3,016	24	3,178	18	6,764	5,818	16	71%
PB	1,499	1,444	4	1,406	7	2,943	3,054	(4)	31%
HO & Subsidiaries	(54)	(78)	(30)	211	na	(132)	490	na	-2%
UAE	4,219	3,576	18	4,085	3	7,796	7,923	(2)	81%
International	973	806	21	710	37	1,779	1,438	24	19%
Profit after taxes	2,879	2,479	16	2,418	19	5,359	4,817	11	
CIB	2,618	2,074	26	1,896	38	4,692	3,596	30	88%
PB	490	565	(13)	374	31	1,055	884	19	20%
HO & Subsidiaries	(229)	(160)	43	148	na	(388)	337	na	-8%
UAE	2,508	2,058	22	2,385	5	4,565	4,513	1	85%
International	372	422	(12)	34	998	793	304	161	15%

CORPORATE & INVESTMENT BANKING (CIB) GROUP

CIB delivered a robust performance in the second quarter on the back of improving market sentiment, and the successful execution of strategic initiatives to enhance income generation. CIB generated its highest quarterly revenue at AED 3.7 Billion, up 24% sequentially primarily driven by a double-digit growth in non-interest income and higher volumes, mitigating the impact of continued rate headwinds. Net loans and advances increased 6% sequentially and 3% year-to-date reflecting the effective deployment of liquidity across short-term FI trade assets and stronger contributions from international operations, while loan-to-deposit ratio remained strong at 63%.

- **Global Transaction Banking (GTB)** revenue grew 6% sequentially reflecting continued strong momentum despite heightened competition, helping to offset headwinds from a low rate environment. Trade Assets lending and average CASA balances are up 37% and 8% sequentially, respectively, with over 280 cash management mandates won during the first half. While our Escrow solutions were enhanced with the launch of new propositions, we are leveraging our state-of-the-art Virtual Accounts and Liquidity Management propositions to advise on Treasury optimisation, enabling us to make significant strides towards deepening client relationships. FAB also launched a number of Supply Chain Finance (SCF) programmes with government entities and corporate clients allowing liquidity to be extended to several corporates and SMEs.
- GTB's ongoing digitisation journey resulted in business volumes carried out digitally across the business peaking in H1'21 at more than 97%. The DigiChecks solution was launched on FAB's Corporate Mobile App in the UAE, and coverage for FABeSign, our portal providing a safe way to sign documents electronically, was extended to over 2,000 clients.

⁷During the quarter, the Group has reorganised its business model. Corporate & Investment Banking and Personal Banking Groups have been re-segmented into four distinct business lines: Corporate & Commercial Banking, Investment Banking, Consumer Banking and Private Banking. However, this re-segmentation is still in the process of being implemented and hence as of the reporting date, the segmental information disclosed is in line with the previous structure.

- **Global Corporate Finance (GCF)** delivered a robust performance with revenue improving 10% sequentially driven by strong pipeline execution. Loans growth during the quarter helped to offset headwinds from margin compression and competition. Capitalising on the noticeable rebound in capital market activity in Abu Dhabi and the wider region, GCF continued to generate growth in fee-based revenue, leading landmark transactions for strategic clients across LCM, DCM, ECM and M&A space. In the first half, FAB cemented its position as the top-ranked regional bank in all MENA investment banking league tables, and the only bank (regional or international) ranked top 10 in all MENA investment banking categories. In line with our strategy to build a world-class Securities Services proposition, FAB recently signed an exclusive strategic partnership with State Street, one of the largest custodian banks globally, combining FAB's leading MENA direct custody footprint in 7 markets, with State Street's global reach and cutting-edge technology platform.
- **Global Markets (GM)** registered a stellar performance during the second quarter with the highest quarterly revenue on record, reflecting excellent progress in our strategy to grow and diversify income streams. Capitalising on improving sentiment, the business generated substantial returns across trading and investment portfolios from selective risk-taking and higher valuations. Revenue from Global Market sales also grew 24% sequentially reflecting higher deal volumes, while eFX volumes were up 31% year-on-year in the first half primarily driven by clients in Asia and the GCC.

PERSONAL BANKING GROUP (PBG)

Personal Banking Group delivered a resilient performance with revenue up 4% in the second quarter driven by higher interest income. Net loans and customer deposits grew 3% and 9% year-to-date respectively, supported by the inclusion of BAE in the second quarter.

The business saw continued strong commercial momentum in Q2'21 with mortgage and credit card acquisitions surpassing to pre-pandemic levels, underpinned by renewed demand and consumer confidence. Assets Under Management (AUM) remained strong while Islamic loans and deposits grew significantly as a result of our new Islamic sales operating model and strategic partnerships. During the period, we expanded our offering with new products such as score-based lending and non-salary transfer loans, which will allow us to access new lending opportunities. We also enhanced our mortgage offering with new pricing and policies, and strengthened relationships with key developers and brokers.

PBG sustained significant progress in its digital journey with 82% digital onboarding of new-to-bank current accounts, and 98% of all migratable transactions and service requests available to customers through FAB Mobile. As a result of greater efficiencies, 6 branches and cash offices were closed, 3 cash offices were converted to digital branches and our Interactive Voice Response (IVR) capabilities were enhanced in our contact centre.

The private banking business saw strong growth momentum in AUMs during the period, as well as loan and deposit growth across our global booking centres. 12 new mutual funds were onboarded during the first half of 2021, in addition to new products such as Egyptian T-bill trading and Alternative Investments.

INTERNATIONAL OPERATIONS

Revenues from international operations grew 24% year-on-year in the first six months of 2021, contributing 19% to Group Revenue, with higher contributions from our franchises in Saudi Arabia, Egypt, UK & USA.

Net loans and advances were up 6% year-to-date while customer deposits grew 23%, with the inclusion of BAE in the second quarter. The integration of FAB's Egypt operations is well underway to be completed during 2022.

ECONOMIC OVERVIEW AND OUTLOOK

Financial markets and macro sentiment have sustained their positive momentum in the second quarter of 2021 driven by COVID-19 vaccine rollout, dovish monetary policy outlook and continued global monetary and fiscal support measures. While concerns around further waves of COVID due to multiple variants lingers on, global and regional real GDP growth projections have largely been maintained or revised upwards in recent months.

The UAE's world-leading vaccination programme has allowed authorities to resume almost all activities with limited restrictions, clearly reflected in consumer spending returning to pre-pandemic levels as well as PMIs staying in expansion territory. In addition to the various supportive fiscal, monetary and regulatory measures, federal and regional governments have committed to large investments to shore up business confidence and momentum. With oil prices remaining stable and above budgeted prices for UAE, we remain cautiously optimistic with regard to the medium-term reflation narrative and, by extension, for the banking sector's prospects and opportunities in the second half of the year.

James Burdett,
Group Chief Financial Officer

ABOUT FIRST ABU DHABI BANK (FAB)

FAB is the UAE's largest bank and one of the world's largest and safest financial institutions. FAB's vision is to create value for its employees, customers, shareholders and communities to grow stronger through differentiation, agility and innovation.

Headquartered in Abu Dhabi, the bank's international network spans five continents, providing global relationships, expertise and financial strength to support local, regional and international businesses seeking to do business at home and abroad. FAB is a trusted adviser and regional partner to major institutions, emerging companies and individuals seeking to do business in the UAE, the MENA region and beyond. As an engine of growth for the region, it helps customers to thrive and grow stronger by managing risk, providing access to capital and facilitating trade flows across developed and emerging markets.

With total assets of AED 944 Billion (USD 257 Billion) as of June-end 2021, 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, and the 32nd Safest Bank globally. The Banker's Top 1000 World Banks 2021 rankings, measured by Tier 1 capital, ranked FAB as #1 in the UAE, #3 in the Middle East and #94 across the globe. FAB is also a regional sustainability leader (MSCI ESG rating of AA, 'Leader' category), and a constituent of MSCI ESG Leaders and FTSE4Good EM indices.

For further information, visit: www.bankfab.com, or <https://www.growstronger.com/> Grow Stronger or <https://www.bankfab.com/en-ae/updates> for COVID-19 related updates.

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