بنك أبوظبي الأول
FAB
First Abu Dhabi Bank
Grow Stronger

Management Discussion & Analysis Report

for the nine-month period ended 30 September 2019

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Abu Dhabi, 24th October 2019

Management Discussion and Analysis Report

FAB reports Group Net Profit of AED 9.4 Billion in the first nine months of 2019

9M'19 Group Net Profit is up 4% 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 for the nine-month period ended 30 September 2019 today.

A solid set of results driven by core revenue momentum

- Group Net Profit at AED 9.4 Billion, up 4% year-on-year; annualised Earnings per Share (EPS) at AED 1.10, compared to AED 1.07 in the first nine months of 2018
- Third quarter net profit of AED 3.1 Billion, up 3% year-on-year, driven by a 5% increase in operating income
- 9M'19 Group Revenue at AED 15.2 Billion, up 4% year-on-year
- Cost-to-income ratio (ex-integration costs) at industry-leading level of 26.5%
- Cost of risk (CoR) was 49bps compared to 51bps in 9M'18

Strong balance sheet growth reflecting sustained business activity and risk discipline

- Total Assets at AED 788 Billion, up 6% year-to-date, while Risk Weighted Assets (RWA) grew marginally by 1% over the same period
- Loans and advances at AED 378 Billion, up 3% sequentially and 7% from December-end 2018, led by government and public sector lending
- Stable asset quality with Non-performing loans ratio at 3.1% and provision coverage of 109%
- Customer deposits at AED 477 Billion, up 3% sequentially and a 2% increase from December-end 2018
- Strong liquidity ratios and funding profile with September-end 2019 Liquidity Coverage Ratio (LCR) at 146%

Robust capital generation, enhanced risk-adjusted returns

- Common Equity Tier-1 (CET1) ratio strengthened to 14.2%, up from 13.6%, both as of June-end 2019 and September-end 2018
- Annualised Return on Tangible Equity (RoTE) and Return on Risk Weighed Assets (RoRWA) improved year-on-year to 16.7% and 2.55% respectively

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

"Our financial results for the third quarter of the year reflect a solid performance characterised by the effective execution of our strategy to drive growth and transformation as we remain firmly on track to unlock our full potential.

Group Net Profit for the first nine months of 2019 grew 4% to AED 9.4 Billion, driven by positive momentum in our Corporate and Personal Banking businesses, as we continue to leverage on our competitive strengths across our global network. Our performance is met with consistent cost and risk discipline, whilst we continue to put our customers first and invest in technology and digital infrastructure to enhance FAB's overall banking proposition.

Reflecting FAB's leading role in supporting economic and social development plans in Abu Dhabi and across the UAE, we continued to support the Emirate's Ghadan 2021 stimulus package by contributing to various programmes.

Internationally, we are on track to implement our strategy in targeted markets, including Saudi Arabia, where we are serving a growing client base and will open a second branch in the city of Khobar shortly.

We are entering the last quarter of 2019 with a robust balance sheet, strong capital and liquidity ratios, stable asset quality, and improved returns. Further emphasising the bank's strong financial position, we were pleased to see FAB being recognised once again this year as the safest bank in the Middle East, 4th safest in Emerging Markets and 22nd safest amongst commercial banks globally by Global Finance magazine. Despite a more challenging global and regional outlook, we remain on a solid track to achieve a record performance in 2019, and maximise shareholder returns".

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FAB Q3/9M'19 Summary Financials

Income Statement - Summary (AED Mn)	**Q3'19**	**Q2'19**	*QoQ %*	**Q3'18**	*YoY %*	**9M'19**	**9M'18**	*YoY %*
Net interest Income	3,329	3,301	*1*	3,263	*2*	9,744	9,755	*(0)*
Non- interest Income	1,744	1,852	*(6)*	1,582	*10*	5,424	4,881	*11*
Total Operating Income	**5,073**	**5,153**	***(2)***	**4,845**	***5***	**15,168**	**14,636**	***4***
Operating expenses	(1,405)	(1,365)	*3*	(1,309)	*7*	(4,084)	(3,973)	*3*
Includes: Integration costs	*(20)*	*(21)*	*(7)*	*(76)*	*(74)*	*(64)*	*(235)*	*(73)*
Impairment charges, net	(469)	(467)	*1*	(435)	*8*	(1,344)	(1,298)	*4*
Non Controlling Interests and Taxes	(88)	(99)	*(12)*	(80)	*10*	(301)	(287)	*5*
Net Profit	**3,111**	**3,221**	***(3)***	**3,021**	***3***	**9,439**	**9,078**	***4***
Basic Earning per Share (AED)	1.05	1.16	*(9)*	1.04	*2*	1.10	1.07	*3*

Balance Sheet - Summary (AED Bn)	**Sep'19**	**Jun'19**	*QoQ %*	**Sep'18**	*YoY %*	**Dec'18**	*Ytd %*
Loans and advances, net	378	366	*3*	354	*7*	353	*7*
Customer deposits	477	462	*3*	455	*5*	465	*2*
CASA (deposits)	176	173	*2*	157	*12*	161	*10*
Total Assets	788	775	*2*	732	*8*	744	*6*
Equity (incl Tier 1 capital notes)	104	101	*3*	100	*4*	102	*2*
Tangible Equity	73	70	*4*	70	*5*	71	*3*

Key Ratios (%)	**Q3'19**	**Q2'19**	*QoQ (bps)*	**Q3'18**	*YoY (bps)*	**9M'19**	**9M'18**	*YoY (bps)*
Net Interest Margin	2.17	2.25	*(8)*	2.33	*(16)*	2.19	2.41	*(22)*
Cost-Income ratio (ex-integration costs)	27.3	26.1	*122*	25.5	*185*	26.5	25.5	*96*
Cost of Risk (bps) (loans & advances)	50	49	*1*	50	*0*	49	51	*(1)*
Non-performing loans ratio	3.1	3.1	*3*	3.1	*(5)*	3.1	3.1	*(5)*
Provision coverage	109	111	*(214)*	119	*(962)*	109	119	*(962)*
Liquidity Coverage Ratio (LCR)	146	137	*922*	123	*lge*	146	123	*lge*
Return on Tangible Equity (RoTE)	16.4	17.9	*(155)*	16.9	*(51)*	16.7	16.5	*14*
Return on Risk-weighted Assets (RoRWA)	2.48	2.57	*(9)*	2.40	*8*	2.55	2.46	*9*
CET1 ratio	14.2	13.6	*58*	13.6	*54*	14.2	13.6	*54*
Capital Adequacy ratio	17.5	16.9	*59*	17.0	*52*	17.5	17.0	*52*

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

Group revenue for the first nine months of 2019 grew 4% year-on-year to AED 15.2 Billion, driven by strong business volumes and double-digit growth in non-interest income, offsetting margin headwinds.

Net Interest Income (including Islamic Financing Income) was AED 9.7 Billion, broadly stable year-on-year as benefits from volume growth and rate hikes in 2018, were offset by margin compression. Third quarter net interest income was up 1% sequentially on lower funding costs, partially offset by lower interest in suspense reversals compared to Q2. **Net Interest Margin** (NIM) was 2.19%, down from 2.41% in the same period last year, primarily due to the tactical deployment of excess liquidity and competitive pricing.

Non-interest income grew 11% to AED 5.4 Billion. **Fees and commissions** were 8% lower year-on-year mainly due to portfolio optimisation initiatives in Personal Banking and lower trade-related fees. They were up 7% sequentially in the third quarter, led by higher loan-related fees and strong performances across Loan and Debt Capital Markets.

FX and investment income grew 41% in the first nine months of 2019 driven by increased client activity, enhanced cross-sell, and higher trading gains across rates, credit and foreign exchange activities. They were down sequentially in the third quarter due to a reduction in short-term liquidity and movements in interest rates. **Other operating income** was lower year-on-year as one-off gains in the second quarter of 2018 were not repeated.

Operating costs were up 3% year-on-year reflecting ongoing investments in digital transformation and expansion in targeted markets. The Group continues to realise cost synergies ahead of plan with ~93% of the 2020 annual run-rate achieved as of September-end 2019. **Cost-to-income ratio** (ex-integration costs) for the first nine months of 2019 remained at an industry-leading level of 26.5%, compared to 25.5% for the same period last year.

Asset quality

September-end 2019 **Non-Performing Loans** were AED 12.0 Billion compared to AED 11.6 Billion the previous quarter, with gross NPL formation being partially mitigated by continued recoveries and write-offs. **NPL ratio** stood at 3.1% as of September-end 2019, broadly stable both sequentially and year-on-year.

Impairment charges (net) were up 4% year-on-year to AED 1.3 Billion in the first nine months of 2019, while **cost of risk** (on loans and advances) was 49 basis points with adequate **provision coverage** at 109%.

Balance sheet trends

Loans and advances (net) grew 3% sequentially and 7% year-to-date, faster than the industry[1]. This was primarily driven by a strong growth in government and public sector lending, reiterating FAB's position as the preferred banking partner to the Abu Dhabi government and GREs. Building on encouraging trends in the second quarter, our Personal Banking business continued to show increased sales across various products, including retail mortgages, loans and credit cards. This was offset by a contraction in its international portfolio, due to currency fluctuations.

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[1] Based on UAE Central Bank data as of August-end 2019

Customer deposits were up 3% sequentially and 2% year-to-date to AED 477 Billion, including a strong growth in government deposits at the tail-end of the third quarter. Current Account and Savings Account (CASA) balances grew AED 16 Billion (+10%) year-to-date to AED 176 Billion reflecting FAB's continued focus on optimising the deposit mix.

Group liquidity remains strong with quarter-end **Liquidity Coverage Ratio** (LCR) at 146%, comfortably in excess of the Basel III minimum regulatory requirement.

Leveraging on a strong credit profile and superior ratings, the Group continued to diversify funding sources across multiple platforms and geographies. During the third quarter, FAB successfully issued CHF 500 Million under its EMTN programme with tenors ranging from 5 to 8 years. Following the launch of the first ever Green Bond from the region in 2017, the Bank further reinforced its position as a leading green issuer executing **the first green private placements from the MENA region**; another milestone reflecting FAB's commitment to support green finance in the UAE and across targeted markets.

Capital management and returns

Common Equity Tier 1 (CET1) ratio strengthened to 14.2%, up from 13.6% as of June-end 2019 on the back of strong capital generation through retained earnings and a continued focus on risk discipline and optimisation. FAB's CET1 ratio stands comfortably in excess of the Basel III minimum regulatory requirement of 11%, which includes a 1.5% capital buffer owing to our Domestic Systemically Important Bank (D-SIB) status.

The Group presents robust capital ratios as of September-end 2019 with **Tier 1** and **total capital adequacy ratios** at 16.3% and 17.5% respectively.

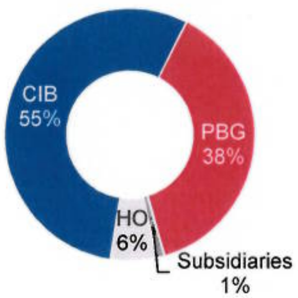
Annualised **Return on Tangible Equity** (RoTE) and **Return on Risk Weighed Assets** (RoRWA) continue to improve year-on-year reaching 16.7% and 2.55%, respectively, against 16.5% and 2.46% in the prior comparative period.

Business performance

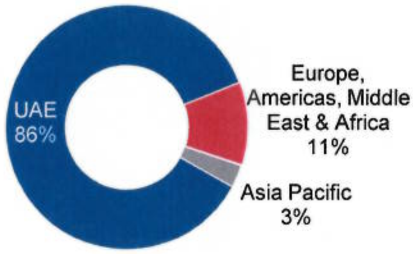
The Corporate & Investment Banking (CIB) Group generated 55% of Group Revenue in the first nine months of 2019, while the Personal Banking Group (PBG) contributed 38%. Head Office (HO) and Subsidiaries generated 6% and 1% of Group's revenue respectively.

Revenue from FAB's **international operations** grew 5% year-on-year, contributing 14% to Group Revenue.

Revenues by Segment



Revenues by Geography



Corporate & Investment Banking (CIB) Group

FAB's market-leading CIB business delivered a robust performance in the first nine months of 2019, achieving growth in balance sheet and revenue despite challenging market conditions. Revenue grew 13%, led by a double-digit increase in non-interest income. Loans and advances grew 10% year-on-year reflecting increased government spending, and healthy business momentum in the UAE and across strategically-targeted markets, while liquidity position remained strong supported by an 18% increase in CASA balances year-on-year.

Global Markets (GM) delivered a 28% increase in revenue year-on-year against a backdrop of volatile markets and shifting monetary policies, with GM sales posting a record performance driven by increased client flow, new relationships and enhanced cross-sell across FAB's global network, helping to offset slower deal execution due to market headwinds.

Global Transaction Banking (GTB) achieved 12% top line growth year-on-year on the back of a significant increase in new cash management mandates and higher CASA balances, offsetting lower trade-related income. Digitisation continued to be a key strategic focus leading to a substantial increase in clients adopting electronic channels.

Global Corporate Finance (GCF) had a resilient performance with fee-based businesses continuing to expand, demonstrating GCF's strong ability to capture ancillary business and diversify income streams in a context of margin compression. FAB's DCM business registered a record performance during the month of September, underpinned by a significant increase in GCC bond issuances. Despite lower loan market volumes compared to 2018, FAB grew market share and maintained its top position in 9M'19 regional league tables as the #1 ranked Bookrunner and Agent for MENA. The bank also ranked #1 Agent Bank in Indian FCY Loans and #5 Bookrunner of International Sukuk.

Personal Banking Group (PBG)

The Personal Banking Group continued to improve net profit and risk-adjusted returns sequentially in 2019, highlighting a pick-up in activity and successful portfolio optimisation strategies in a challenging operating environment.

Loans and advances grew 4% year-to-date, with a sustained business momentum in the third quarter driven by strong marketing efforts, competitive offers on key products, and improved productivity and customer experience across distribution channels. As a result, acquisitions of new personal loans and credit cards were higher both sequentially and year-on-year while CASA balances continued to record solid growth.

Customer migration to digital channels continued to increase, reflecting enhanced mobile functionalities and reduced reliance on manned channels. We digitised our SME lending process using Robotics, Blockchain and optical character recognition.

FAB continues to leverage on its leading market position and longstanding government relationships to support key economic and social development initiatives including *Ghadan 2021*.

Payit, the UAE's first fully-featured digital wallet, reached the 100,000 users milestone in the last quarter and continued to enhance its value proposition through new features and innovative partnerships. This included a recent tie-up with the Abu Dhabi Securities Exchange (ADX) to enable investors to receive corporate dividends through the mobile wallet.

9M'2019 Economic Overview and Outlook

The third quarter of 2019 was another period characterised by volatility in the rates market outlook, with an overarching veil of uncertainty fuelled by global trade tensions and an increasingly accommodative bias from Central Banks. The Federal Reserve cut its benchmark interest rate twice in the quarter with the market anticipating further similar actions in the near term.

A broad deceleration across the world's largest economies recently led the IMF to cut its global growth projections for the fifth time, with the economic outlook for the GCC also revised downwards. Despite increased government spending in the UAE, weakness in the non-oil economy, continued softness in the property market and global growth slowdown are expected to further weigh on economic growth. We now expect the UAE's real GDP to grow 1.75% this year, broadly in line with 2018 and down from a previous forecast of 2.5%. We expect it to recover to 2.5% in 2020, down from a previous forecast of 3.0%.

Despite a broadly more cautious outlook, we still believe that a number of factors should continue to offer robust bedrock for economic activity and growth in the UAE over the coming months. This includes increased government spending, ongoing investment ahead of Expo 2020, the benefits from the effective implementation of structural reforms, and further relaxation of foreign ownership limits.

Recent Awards

- Best Investment Bank in the UAE 2018, 2019 — Global Finance
- Best Equity Bank in the Middle East 2018, 2019 — Global Finance
- Best Bank for Cash Management in the UAE 2019 — Global Finance
- Best Loan Arranger in the ME 2019 — GlobalCapital
- Most Impressive Middle East Bank Issuer 2019 — GlobalCapital
- Middle East's Best Banks for Asia 2018, 2019 — ASIAMONEY
- Best Bank for Financing in the MEA 2019 — EUROMONEY
- Best Bank for Transformation in MEA 2019 — EUROMONEY

KARIM KAROUI

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 788 Billion (USD 214 Billion) as of September-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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