

Management Discussion & Analysis Report

for the first quarter ended 31 March 2020

Abu Dhabi, 27th April 2020

Management Discussion & Analysis

FAB reports first quarter 2020 Group Net Profit of AED 2.4 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 2020 today.

The bank delivered a resilient performance with a net profit of AED 2.4 Billion for the first three months of 2020, down 22% from the same period in 2019 mainly as a result of lower revenue due to rate cuts and unprecedented market conditions during the period, as well as prudent provisioning in light of a more challenging operating environment. The Group focused on maintaining a robust balance sheet during the period, with strong liquidity and capital ratios, as well as healthy asset quality metrics, leveraging its inherent strength and scale to support customers and the wider community navigate unprecedented times due to the COVID-19 pandemic.

Our performance in the first quarter of 2020 was resilient despite unprecedented market conditions, globally

- First quarter 2020 Group Net Profit at AED 2.4 Billion, compared to AED 3.1 Billion in the first quarter of 2019
- Annualised Earnings Per Share (EPS) at AED 0.82, from AED 1.08 in the prior year comparative period
- Operating income at AED 4.6 Billion, 8% lower year-on-year
- Impairment charges at AED 738 Million reflect prudent provisioning due to a challenging operating environment
- Cost-to-income ratio (ex-integration costs) at 29.1%, compared to 26.1% in the first quarter of 2019

We have maintained a robust balance sheet, enabling us to continue to support our clients in tough market conditions

- Total assets at AED 835 Billion, up 14% year-on-year
- Loans and advances at AED 382 Billion, up 6% year-on-year
- Customer deposits at AED 497 Billion, up 15% year-on-year, with Current Account and Savings Account (CASA) balances at AED 181 Billion, up 12% year-on-year
- Strong liquidity and funding profile with a Liquidity Coverage Ratio at 110% as of March-end 2020
- Non-Performing Loan ratio at 3.5%, provision coverage ratio at 95%
- Common Equity Tier 1 (CET1) ratio at 12.1%, in excess of regulatory requirements

His Highness Sheikh Tahnoon Bin Zayed Al Nahyan, Chairman of FAB, said:

"FAB entered a period of unprecedented challenges for the global economy with an exceptionally strong balance sheet and capital position, enabling the bank to fully support customers and help to mitigate the wider economic impact by playing an integral role in the government's targeted relief measures. FAB has worked with the public and

private sectors throughout in a spirit of partnership and collective responsibility, to support the economic prosperity of our nation and extend support where it is needed.

“On behalf of myself and the board, I congratulate H.E. Abdulhamid Saeed on his appointment as UAE Central Bank Governor. His knowledge and expertise are based on decades of experience, from building FGB and then spearheading the merger that established FAB as not only the UAE’s largest bank, but also as an important catalyst for economic growth across the country. H.E. Abdulhamid Saeed’s record of accomplishment and leadership will greatly benefit the banking sector and the wider economy as we collectively navigate the way forward. I would also like to express our gratitude to the FAB team for continuing to deliver uninterrupted services to our customers throughout this period.”

Commenting on the results, André Sayegh, Group Chief Executive Officer, added:

“FAB delivered a resilient performance in the first quarter of 2020 in an unprecedented and challenging market environment. Our net profit of AED 2.4 Billion was 22% lower than the first quarter of 2019 driven by prudent provisioning in light of a more challenging operating environment and lower revenue due to rate cuts and unprecedented market conditions during the period.

“Despite market headwinds, we have maintained a robust balance sheet and our capital, liquidity and funding position remain strong. This enables us to attract liquidity across our global network, underlining a flight to safety benefitting FAB in the current environment. In addition to being a major supporter to the private sector in the UAE, we continue to work closely with the UAE Government and other public sector entities in the financial domain to support the economy in all respects.

“In response to the COVID-19 pandemic, FAB activated its robust business continuity plan in a prompt and timely manner and I am proud to say that our staff adapted very quickly to a new operating environment, which enabled us to deliver uninterrupted banking services to our customers and stakeholders. With the vast majority of customers asked to stay at home, we were able to maintain service levels through our continuous investment in online and mobile banking platforms.

“Our achievements over the past few years, our inherent scale, market leadership and efficiency have allowed us to enter 2020 from a position of strength. As we move into the second quarter and beyond, we will continue to take the necessary actions to maintain our robust foundation and financial strength, and to enable us to continue to support our clients and communities through these challenging times. As a driver for UAE economic growth and prosperity, we remain confident in our ability to continue delivering long term value for all our stakeholders.”

Supporting customers and the community during COVID-19

FAB has taken, and is continuing to take, decisive measures to support employees, customers, and the UAE community at large.

The bank activated a robust business continuity plan early on to ensure all critical functions operate without interruption, supporting the migration of customers to digital banking from in-branch transactions, whilst providing them with “how to” guides and educational videos.

FAB was also among the first UAE financial institutions to launch relief measures for our customers, including the postponement of loan repayments and the suspension or reduction of fees and charges across a wide range of products in line with the directives of the UAE authorities. FAB launched a virtual General Assembly Meeting (GAM) service for listed companies to support the preventive measures introduced by the UAE Government to reduce health risks associated with COVID-19.

In addition to supporting employees and customers, FAB has also offered extensive support to the community during the COVID-19 outbreak. Initiatives include pledging AED 1 million to the Emirates Foundation to provide food boxes to people in need during the Holy Month of Ramadan; AED 2 million to Emirates Red Crescent (ERC) to provide meals for frontline health professionals and meal boxes to support people in need to safely break their Ramadan fasts; and AED 5 million to provide laptops to students for distance learning, in partnership with the Ministry of Education.

FAB will continue to assess new ways to provide further assistance and practical support to the community as we collectively navigate the challenges of COVID-19, together.

FAB Q1'20 Summary Financials

Income Statement - Summary (AED Mn)	Q1'20	Q4'19	QoQ %	Q1'19	YoY %
Net interest Income	3,061	3,031	1	3,114	(2)
Non- interest Income	1,505	2,050	(27)	1,828	(18)
Total Operating Income	4,566	5,081	(10)	4,942	(8)
Operating expenses	(1,353)	(1,415)	(4)	(1,314)	3
<i>Includes: Integration costs</i>	(24)	(18)	37	(24)	1
Impairment charges, net	(738)	(499)	48	(407)	81
Non Controlling Interests and Taxes	(67)	(86)	(22)	(114)	(41)
Net Profit	2,408	3,081	(22)	3,107	(22)
Basic Earning per Share (AED)	0.82	1.10	(25)	1.08	(24)

Balance Sheet - Summary (AED Bn)	Mar'20	Dec'19	QoQ %	Mar'19	YoY %
Loans and advances, net	382	408	(6)	359	6
Customer deposits	497	519	(4)	433	15
CASA (deposits)	181	174	4	162	12
Total Assets	835	822	2	733	14
Equity (incl Tier 1 capital notes)	94	108	(13)	98	(4)
Tangible Equity	63	77	(18)	67	(6)

Key Ratios (%)	Q1'20	Q4'19	QoQ (bps)	Q1'19	YoY (bps)
Net Interest Margin	1.90	1.89	1	2.16	(26)
Cost-Income ratio (ex-integration costs)	29.1	27.5	159	26.1	299
Cost of Risk (bps) (loans & advances)	70	48	22	50	21
Non-performing loans ratio	3.5	3.2	30	3.3	26
Provision coverage	95	93	175	106	lge
Liquidity Coverage Ratio (LCR)	110	129	lge	117	(751)
Return on Tangible Equity (RoTE)	13.0	15.5	(250)	17.4	(437)
Return on Risk-weighted Assets (RoRWA)	1.97	2.49	(51)	2.52	(55)
CET1 ratio	12.1	13.5	(142)	12.7	(61)
Capital Adequacy ratio	15.4	16.9	(148)	16.0	(56)

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

- Rounding differences may appear in above table

Operating performance

Group Revenue for the three-month period ended 31 March 2020 was AED 4.6 Billion, 8% lower year-on-year and 10% sequentially.

Net Interest Income (including Islamic Financing Income) was AED 3.1 Billion, broadly in line with the prior year comparative period. **Net Interest Margin** (NIM) was 1.90%, down from 2.16% in the first quarter of 2019, on the back of rate cuts and margin compression.

Non-interest income was 18% lower year-on-year primarily due to lower Fx and investment income reflecting unprecedented market conditions during the period. This was partly offset by higher income from portfolio liquidations, and increased client flow activity. Net fees and commissions grew 3% year-on-year and 7% sequentially as a result of higher loan-related fees.

Operating expenses were well contained at AED 1.4 Billion, down 4% sequentially, despite continued investments in key strategic and digital initiatives. Annualised cost-to-income ratio (ex-integration costs) was 29.1%, up from 26.1% in the first quarter of 2019 due to lower revenue. The bank completed an important milestone in January by achieving the full annual run-rate cost synergy target of AED 1.5 Billion, with further initiatives underway to create future efficiencies and ensure cost discipline.

Asset quality

Non-Performing Loans were AED 13.9 Billion, compared to AED 13.5 Billion as of December-end 2019. Asset quality remained healthy with **NPL ratio** at 3.5%, up from 3.2% as of 31 December 2019, primarily due to lower loan balances.

Impairment charges (net) were up 81% year-on-year and 48% sequentially to AED 738 Million, encompassing prudent provisioning through management overlays in light of a more challenging operating environment. Annualised **cost of risk** (on loans and advances) stood at 70 basis points, up from 50 basis points in the first quarter of 2019, and **provision coverage ratio** was 95%.

FAB's loan portfolio is well diversified and geared towards high-quality assets in light of the bank's privileged position as the strategic partner to the government of Abu Dhabi and related entities, underpinning the resilience of our risk metrics in the current environment.

Balance sheet trends

Total assets grew 14% year-on-year to AED 835 Billion driven by higher loans and advances, and placements with central banks and other financial institutions.

Loans and advances (net) at AED 382 Billion were up 6% year-on-year, led by government and corporate lending. Excluding the repayment of a large short-term facility in January, loans grew 1% sequentially driven by continued momentum across our core businesses despite COVID-19-related disruption.

Customer deposits grew 15% year-on-year to AED 497 Billion driven by a significant increase in corporate and GRE deposits, and were up 2% sequentially excluding short-term government outflows earlier in the quarter. Current

Account and Savings Account (CASA) balances recorded a healthy growth, expanding 12% year-on-year and 4% sequentially to AED 181 Billion, representing 36% of total customer deposits.

Group liquidity remained strong with **Liquidity Coverage Ratio** (LCR) at 110% as of March-end 2020, 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.

Despite tighter market liquidity conditions during the period, the Bank was able to attract healthy inflows across its global network, underlining FAB's competitive strength as an aggregator of regional and international liquidity, benefitting from a 'flight-to-safety' in the current environment.

On the **wholesale funding** side, the Group had a strong start to the year, raising USD 2.0 Billion (AED 7.3 Billion) of term funding in the first quarter and taking advantage of favourable market conditions before the COVID-19 outbreak caused volatility and widening of credit spreads. In January and February, the Group was active across public wholesale funding markets raising a USD 485 Million 30-year callable Formosa Bond, a USD 500 Million 5-year RegS Sukuk, a AUD 350 Million 5-year Kangaroo Bond and a GBP 450 Million 3-year Sterling Bond. The Kangaroo Bond was the Group's first Australian Dollar public issuance since 2014 while the Sterling Bond was the first and largest public Sterling issuance by a financial institution from the region and demonstrates FAB's ability to successfully tap new funding markets.

These transactions, which were all met with strong investor demand, are consistent with FAB's strategy to diversify its investor base and to raise cost-effective liquidity and funding. FAB's leading franchise, solid credit profile and superior credit ratings of AA- (or equivalent), continue to be key differentiators particularly in current market conditions.

Shareholders' equity, capital and returns

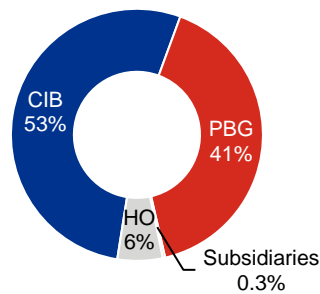
Shareholders' equity (including Tier 1 capital notes) stood at AED 94 Billion, compared to AED 108 Billion as of December-end 2019. **Basel III Common Equity Tier 1** (CET1) ratio was 12.1%, and stands above the minimum Basel III regulatory requirement of 11% which includes a 1.5% additional buffer as per the Bank's Domestic Systemically Important Bank (D-SIB) status. Capital adequacy and Tier 1 capital ratios were 15.4% and 14.3% respectively as of March-end 2020.

Business performance

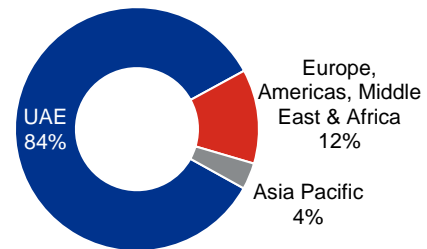
The Corporate & Investment Banking (CIB) Group generated 53% of Group Revenue in the first quarter of 2020, while the Personal Banking Group (PBG) contributed 41%. Head Office (HO) and Subsidiaries generated 6% and 0.3% of Group Revenue respectively.

Revenue from our **international operations** grew 3% year-on-year, contributing 16% to Group Revenue. The international loan book grew 3% year-on-year and 1% sequentially reflecting business expansion across strategically targeted markets, including Saudi Arabia, while liquidity position remained strong.

Revenues by Segment



Revenues by Geography



Corporate & Investment Banking (CIB) Group

CIB delivered a resilient performance in the first quarter of 2020 during an unprecedented period marked by heightened volatility that also saw erosion of market liquidity and widening of spreads across asset classes. Loans and advances grew 8% year-on-year reflecting good balance sheet momentum, while customer deposits showed a strong growth of 20%. Operating income was 13% lower compared to the same period in 2019, due to downward pressure from rate cuts and margin compression, coupled with marked-to-market impact on our investment portfolios. Despite these challenges, our balance sheet strength and solid liquidity profile, position us well to continue to support our clients as they navigate volatile market conditions.

- Global Transaction Banking (GTB)** closed a significant number of new cash management mandates, boosting CASA balances by 8% to AED 105 Billion as of March-end 2020. Although lower year-on-year mainly due to rate cuts, GTB revenues were supported by higher volumes and appropriate pricing measures. Digitisation continued to be a key strategic focus with a substantial increase in clients adopting electronic channels, while the deployment of Robotics Process Automation (RPA) significantly reduced turnaround times, enabling faster processing of trade transactions. GTB transaction volumes continue to remain high despite global disruption.
- Global Corporate Finance (GCF)** demonstrated resilience to a challenging economic environment, delivering revenue broadly flat sequentially. Increased fee income from buoyant capital markets activity at the start of the year offset lower net interest income attributable to depressed regional loan market volumes as well as margin compression. Against the backdrop of COVID-19 we expect this trend to reverse and demand to recover as we move into a lenders' market. As #1 Bookrunner and Agent of MENA loans and the top-ranked regional Bookrunner of MENA bonds and International Sukuk, GCF is well placed to continue to seize new opportunities. During the quarter, our Securities Services business was launched in Saudi Arabia, in line with our strategy to establish a regional Securities Services proposition. Revenue from our advisory business also continues to grow with positive prospects on the back of increased opportunities for both restructuring and M&A going forward.
- Global Markets (GM)** had a strong start to the year with solid performances across all desks, partly cushioning the impact from market turbulence. Revenue for the period was 5% lower year-on-year, impacted by tighter liquidity, widening of spreads, along with additional provisions to reflect heightened risks. The

impact from the market downturn was largely contained to our Credit & Investment portfolios where we strategically held back on new investments in order to preserve liquidity. Pro-active risk management and positioning limited the impact on our trading portfolios. Global Market Sales continued to show strong momentum recording a double-digit revenue growth on the back of increased client flow and a spike in demand for hedging solutions across interest rates, FX and commodities.

Personal Banking Group (PBG)

Personal Banking Group (PBG) delivered a healthy performance in the first quarter of 2020, and took decisive actions to support employees and customers in navigating challenging times.

Although broadly flat sequentially, revenue was up 7% year-on-year to AED 1.9 Billion. Revenue growth was driven by a 1% increase in net interest income and a double-digit growth in fee income reflecting a pickup in sales momentum across credit cards and all key lending products. Operating costs remained contained, while impairment charges were higher. Loans and advances stand at AED 97 Billion, a 2% year-on-year growth from a slower period in the first quarter of 2019 attributable to the transition to unified systems post integration.

In the last quarter, we maintained our focus on product innovation and on leveraging our digital and alternative channels to meet our customers' specific needs. The Bank launched a cashback credit card, as well as a new cashback offering for Dubai First customers. We also strengthened our unique and longstanding relationship with the UAE government by initiating the Abu Dhabi Pay project with key government entities.

In light of the rapidly changing COVID-19 situation, PBG introduced a wide range of measures to keep our customers and colleagues safe and to continue providing banking services through selected branches, digital platforms and alternative channels. In recent weeks, we encouraged customers to use online and mobile banking channels, offering a seamless banking experience during lockdown. To further support this we launched "how to" guides and educational videos, redirected some branch services to mobile, and launched WhatsApp servicing for credit cards.

In line with the directives of the UAE Central Bank and local authorities, and in coordination with our industry peers, we implemented a series of relief measures to support our retail and SME customers in these challenging times. These became effective April 1st and include deferred instalments, fee waivers, reduced interest rates, home buyer support, payment schemes for school fees and utilities, reduced merchant fees and lower balance requirements on SME accounts. We have taken pre-emptive measures to mitigate potential future credit losses through conservative lending policies and by focusing our acquisition efforts towards lower risk sectors.

As the leading UAE Bank, FAB will continue to play a critical role to support the economic strength and prosperity of the UAE, and offer the right support for our customers and communities through these testing times.

Economic overview and outlook

The rapid evolution of COVID-19 since the beginning of this year is causing severe economic disruption across Asia, the Middle East, Europe and the U.S. While the collapse of financial markets was tempered by a plethora of monetary and fiscal accommodation measures announced by governments and central banks, efforts to contain the outbreak have raised consensus fears of a global recession scenario.

In the UAE, the sharp drop in oil prices and reduced economic activity exerted pressure on key economic sectors and is expected to lead to a significant contraction in GDP. Fiscal measures announced by local authorities coupled with the AED 256 Billion monetary stimulus package launched by the UAE Central Bank, are expected to provide support to the economy and the financial sector, and to offer relief to companies and individuals impacted by COVID-19. In Abu Dhabi, the Abu Dhabi Executive Council announced new plans under its *Ghadan 21* initiative with a priority placed on COVID-19-related programmes including new allocations to the SME Credit Guarantee Scheme, subsidies on water and electricity, and exemptions and rebated on a range of fees.

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 continually invests in its 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.

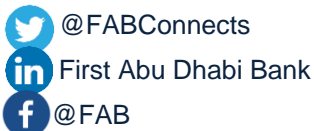
With total assets of AED 835 Billion (USD 227 Billion) as of March-end 2020, FAB is rated Aa3/AA-/AA- by Moody's, S&P and Fitch, respectively, the strongest combined ratings of any bank in the MENA region. The Bank has been ranked by Global Finance® as the safest bank in the UAE and the Middle East. 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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