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FAB
First Abu Dhabi Bank
Grow Stronger

Management Discussion & Analysis Report

for the first half ended 30 June 2020

Abu Dhabi, 28th July 2020

Management Discussion & Analysis

FAB reports First Half 2020 Group Net Profit of AED 4.8 Billion

Second quarter net profit at AED 2.4 Billion, flat compared to the first quarter, with operating profits up 11%

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 ended 30 June 2020 today.

The bank continued to deliver a resilient performance against an unprecedented global backdrop arising from the COVID-19 pandemic, a low interest rate environment, as well as volatile market conditions. Our resilience and conservative business approach have resulted in a net profit of AED 2.4 Billion in the second quarter of 2020, which was flat compared to the first quarter as higher impairment charges were offset by revenue growth and cost management initiatives. Net profit for the first six months of 2020 was AED 4.8 Billion, down 24% compared to the same period in 2019, driven mainly by an increase in impairment charges and lower revenues, partly mitigated by cost reduction. The Bank's balance sheet strengthened further during the period with improvements in liquidity and capital ratios, and resilient asset quality metrics. FAB continued to leverage its scale and inherent strength to provide relief to customers in line with the UAE Central Bank Targeted Economic Support Scheme (TESS), and the bank's own programmes.

A resilient performance despite significant headwinds

- First Half 2020 Group Net Profit at AED 4.8 Billion, compared to AED 6.3 Billion in the first half of 2019
- Second quarter Group Net Profit at AED 2.4 Billion, was flat compared to Q1'20, with operating profits up 11%
- Annualised Earnings Per Share (EPS) at AED 0.84, from AED 1.12 in the prior year comparative period
- Half year operating income at AED 9.4 Billion, compared to AED 10.1 Billion in the first half of 2019
- Operating costs at AED 2.6 Billion, reduced 3% year-on-year
- Cost-to-income ratio (ex-integration costs) was 27.3%, compared to 26.1% in the first half of 2019, while Q2'20 cost-to-income ratio improved to 25.5% from 29.1% the previous quarter
- Impairment charges increased to AED 1.8 Billion, reflecting the challenging macro-economic environment, translating to an annualised cost of risk of 87 bps, up from 49 bps in the first half of 2019

Strengthened liquidity and capital position, and resilient asset quality

- Total assets at AED 866 Billion, up 12% year-on-year
- Loans and advances at AED 385 Billion, up 5% year-on-year and 1% from March-end 2020
- Customer deposits at AED 519 Billion, up 12% year-on-year, and 4% from March-end 2020, with Current Account and Savings Account (CASA) balances at a record high of AED 196 Billion
- Liquidity Coverage Ratio improved to 129%, demonstrating a strong liquidity and funding profile
- Non-Performing Loan ratio at 3.9%, provision coverage ratio at 91%
- Common Equity Tier 1 (CET1) ratio strengthened to 13.6%, while Tier 1 capital and total capital ratios also remained comfortably above Basel III regulatory requirements at 15.2% and 16.4%, respectively

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

"FAB delivered a resilient performance in the first half of 2020 in a period of unprecedented challenges. Our strategic actions have enabled us to further strengthen our balance sheet, with a strong growth in customer deposits demonstrating FAB's unique position as an aggregator of regional and global liquidity, and our flight-to-safety status in such volatile market conditions. Our capital position remains solid and comfortably above regulatory requirements, even as we proceeded with the repayment of our Additional Tier 1 capital notes in June, testament to our long-standing commitment to our global investor base.

During the second quarter, we focused on providing financial relief to our customers in line with the UAE Central Bank TESS program, as well as through the Bank's own initiatives, while ensuring prudent lending and diligent risk management, and we are committed to continue to support our clients and the broader UAE economy through these unpredictable times. We also accelerated our digital transformation journey, launching a number of digital-first initiatives aimed at enhancing customer experience and convenience across a broad range of our products and services. The effective launch of the e-payment platform Abu Dhabi Pay was also a key milestone, underlining FAB's strategic role in enabling digital sustainability in the emirate through innovative payment solutions.

In recognition of our achievements and exceptional track record, FAB received 3 prestigious awards at Euromoney's Awards for Excellence 2020, including 'Middle East's Best Bank for Financing', 'Best Investment Bank in the UAE', and 'Middle East's Best Bank for Corporate Responsibility', acknowledging our regional leadership in addressing Environmental, Social, and Governance (ESG) issues.

There are many in our wider community who deserve recognition for their actions over recent months in the fight against COVID-19, and we are thankful to our leadership for their wise and decisive actions, as the UAE continues to rank amongst the top countries in the world in its response to the pandemic.

Looking forward, FAB will embrace change and opportunity as the world enters a new normal, and as we remain firmly focused on delivering long term value for our customers, shareholders and the wider community."

James Burdett, Group Chief Financial Officer, FAB, said:

"The Group generated a net profit of AED 4.8 Billion in the first half of 2020 with total revenues at AED 9.4 Billion, which is a strong result in a period of unprecedented social and economic challenges and market volatility, compounded by historically low interest rates. Our core businesses delivered a resilient operating performance despite these headwinds, demonstrating the benefit of our diversified business model and our market-leading capabilities. In the context of a challenging and uncertain environment, we continued to build our provision buffers, leading to a substantial increase in impairment charges, while our high-quality portfolio and conservative asset mix are key differentiators. Our ongoing focus on cost discipline also led to significant savings, with various initiatives underway to create future efficiencies. Our liquidity and capital ratios further strengthened during the period, underpinning our robust foundation as we continue to support our core clients, and as we expect a pickup in demand in the second half of the year.

While economic activity is gradually resuming, we remain cautious as the shape and timing of the recovery remain uncertain."

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.

During the last quarter, relief measures were extended to our retail, SME and corporate customers in the form of payment deferrals of over AED 8.0 Billion on interest and principal.

In addition, FAB has also offered extensive support to the community during the COVID-19 outbreak. In a further recent initiative with the Emirates Red Crescent, some 500 meals were distributed to people in need in Al Ain, and the bank also partnered with the organisation on its Eid Al Adha campaign.

The digital-first mindset and policies adopted in the bank's response to the effects of COVID-19 has also initiated fresh thinking on flexible working policies at FAB and how we can optimise the strengths of our talented teams and continue to provide excellent service to our customers and stakeholders. For FAB, technology has been, and will continue to be, utilised as a key differentiator.

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 Q2/H1'20 Summary Financials

Income Statement - Summary (AED Mn)	**Q2'20**	**Q1'20**	*QoQ %*	**Q2'19**	*YoY %*	**H1'20**	**H1'19**	*YoY %*
Net interest Income	**3,263**	3,061	*7*	3,301	*(1)*	**6,323**	6,415	*(1)*
Non- interest Income	**1,532**	1,505	*2*	1,852	*(17)*	**3,038**	3,680	*(17)*
Total Operating Income	**4,795**	**4,566**	***5***	**5,153**	***(7)***	**9,361**	**10,095**	***(7)***
Operating expenses	**(1,237)**	(1,353)	*(9)*	(1,365)	*(9)*	**(2,589)**	(2,679)	*(3)*
Operating profit	**3,559**	**3,214**	***11***	**3,787**	***(6)***	**6,772**	**7,416**	***(9)***
Impairment charges, net	**(1,060)**	(738)	*44*	(467)	*127*	**(1,799)**	(874)	*106*
Non Controlling Interests and Taxes	**(87)**	(67)	*29*	(99)	*(13)*	**(154)**	(213)	*(28)*
Net Profit	**2,411**	**2,408**	***0***	**3,221**	***(25)***	**4,820**	**6,328**	***(24)***
Basic Earning per Share (AED)	**0.86**	0.82	*6*	1.16	*(25)*	**0.84**	1.12	*(25)*

Balance Sheet - Summary (AED Bn)	**Jun'20**	**Mar'20**	*QoQ %*	**Jun'19**	*YoY %*	**Dec'19**	*Ytd %*
Loans and advances, net	**385**	382	*1*	366	*5*	408	*(6)*
Customer deposits	**519**	497	*4*	462	*12*	519	*(0)*
CASA (deposits)	**196**	181	*8*	173	*13*	174	*13*
Total Assets	**866**	835	*4*	775	*12*	822	*5*
Equity (incl Tier 1 capital notes)	**98**	94	*4*	101	*(3)*	108	*(9)*
Tangible Equity	**70**	63	*11*	70	*(0)*	77	*(9)*

Key Ratios (%)	**Q2'20**	**Q1'20**	*QoQ (bps)*	**Q2'19**	*YoY (bps)*	**H1'20**	**H1'19**	*YoY (bps)*
Net Interest Margin	**1.90**	1.90	*0*	2.25	*(35)*	**1.90**	2.21	*(31)*
Cost-Income ratio (ex-integration costs)	**25.5**	29.1	*(356)*	26.1	*(56)*	**27.3**	26.1	*117*
Cost of Risk (bps) (loans & advances)	**108**	70	*38*	49	*59*	**87**	49	*38*
Non-performing loans ratio	**3.9**	3.5	*41*	3.1	*88*	**3.9**	3.1	*88*
Provision coverage	**91**	95	*(386)*	111	*lge*	**91**	111	*lge*
Liquidity Coverage Ratio (LCR)	**129**	110	*lge*	137	*(774)*	**129**	137	*(774)*
Return on Tangible Equity (RoTE)	**13.8**	13.0	*82*	17.9	*(410)*	**12.5**	17.2	*(474)*
Return on Risk-weighted Assets (RoRWA)	**1.95**	1.97	*(2)*	2.57	*(62)*	**1.97**	2.58	*(60)*
CET1 ratio	**13.6**	12.2	*141*	13.6	*(2)*	**13.6**	13.6	*(2)*
Capital Adequacy ratio	**16.4**	15.5	*85*	16.9	*(55)*	**16.4**	16.9	*(55)*

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 six month period ended 30 June 2020 was AED 9.4 Billion, compared to AED 10.1 Billion in the first half of 2019.

Net Interest Income (including Islamic Financing Income) was AED 6.3 Billion, 1% lower year-on-year, as the adverse impact of rate cuts and margin compression, was partly offset by higher volumes. The second quarter of 2020 saw a 7% sequential increase in net interest income, driven by lower funding costs, as well as higher interest in suspense reversals. **Net Interest Margin** (NIM) for the first half was 1.90%, down 31 basis points year-on-year.

Non-interest income reduced 17% year-on-year primarily due to lower FX and investment income and lower fees and commissions, impacted by adverse market conditions and the economic slowdown induced by COVID-19 which resulted in lower business volumes. This was partly offset by continued strength across strategic areas such as Debt Capital Markets and Global Market Sales. Non-interest income in the second quarter included gains on sale and lease back of office premises.

Operating expenses reduced 3% year-on-year for the first half, and 9% sequentially in the second quarter, as a result of cost management initiatives and expense discipline, translating to an industry-leading cost-to-income ratio (ex-integration costs) of 27.3%. The Group continued to invest in key strategic and digital initiatives during the period, aimed at creating future efficiencies, building a more agile operating model, and improving customer experience.

Asset quality

Non-Performing Loans were AED 15.6 Billion, compared to AED 13.9 Billion as of March-end 2020, reflecting a challenging macro-economic environment as a result of the economic slowdown induced by COVID-19, impacting both our retail and corporate customers. Asset quality was resilient with **NPL ratio** at 3.9%, compared to 3.5% the previous quarter.

Impairment charges (net) more than doubled year-on-year to AED 1.8 Billion, encompassing management overlays of AED 550 Million. Annualised **cost of risk** (on loans and advances) stood at 87 basis points for the first half of 2020 (108 basis points for the second quarter), up from 49 basis points in the corresponding period of 2019, with **provision coverage** at 91%.

FAB presents a conservative asset mix, with a well-diversified loan portfolio and a significant exposure to high-quality assets in light of the bank's privileged position as the strategic partner to the government of Abu Dhabi and related entities.

Balance sheet trends

Total assets grew 12% year-on-year to AED 866 Billion driven by prudent lending, and continued improvement in liquidity.

Loans and advances (net) at AED 385 Billion were up 5% year-on-year, led by government and public sector lending. Net loans grew 1% sequentially despite significant repayments and subdued credit demand during the period.

Customer deposits grew 12% year-on-year and 4% sequentially to AED 519 Billion. While market liquidity conditions improved compared to the first quarter, FAB continued to benefit from its 'flight-to-safety' status, attracting regional and international liquidity. Deposit growth was driven by a significant increase in Current Account and Savings Account (CASA) balances to a record high of AED 196 Billion.

Liquidity Coverage Ratio (LCR) at 129% as of June-end 2020, demonstrates our strong liquidity position, and remains 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.

The Group was active on the wholesale funding side during the period, raising USD 1.6 Billion (AED 5.8 Billion) in the second quarter across different markets and currencies despite the weaker market backdrop and increased volatility due to COVID-19 outbreak, taking the total funding raised to-date to USD 3.8 Billion. All deals were priced at very attractive levels despite the widening of credit spreads which emphasises FAB's superior credit profile. Noteworthy issuances included:

- USD 500 Million 30-year callable Formosa Bond followed with another USD 640 Million at the back of strong investor demand
- CNH 1.4 Billion 5-year Formosa - the largest Chinese Yuan issuance from the Mena region
- HKD 750 Million 5-year Green Bond - the first Green Bond issuance by a MENA issuer denominated in Hong Kong Dollars (HKD) and the first Green Bond in HKD by an offshore financial institution - a testament to FAB's commitment to 'green' finance

Shareholders' equity, capital and returns

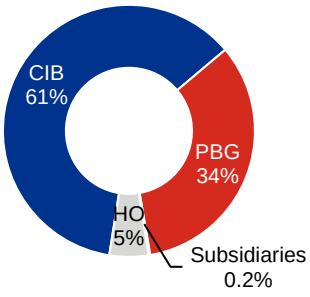
Shareholders' equity (including Tier 1 capital notes) stood at AED 98 Billion, compared to AED 94 Billion as of March-end 2020. **Basel III Common Equity Tier 1** (CET1) ratio improved sequentially from 12.2% to 13.6% as a result of higher retained earnings, the tightening of credit spreads during the period, and ongoing optimisation of risk-weighted assets. The Bank's CET1 ratio stands comfortably above the minimum Basel III regulatory requirement of 11%, as well as the 8% minimum requirement prescribed by the UAE Central Bank until December-end 2021 as part of capital relief buffers under TESS. In June, the Bank proceeded with the repayment of USD 750 Million Additional Tier 1 Capital notes, testament to FAB's commitment to its global investor base. The Group presents a strong capital position as of June-end 2020 with Tier 1 capital ratio and total capital adequacy at 15.2% and 16.4% respectively.

Business performance[1]

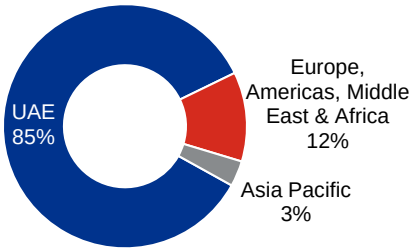
The Corporate & Investment Banking (CIB) Group generated 61% of Group Revenue in the first half of 2020 and Personal Banking Group (PBG) contributed 34%, with the remaining being contributed by Head Office (HO) and Subsidiaries.

Revenues from our **international operations** were up 1% year-on-year, contributing 15% to Group Revenue. The international loan book grew 3% year-on-year 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 half of 2020 despite unprecedented market conditions resulting from the COVID-19 pandemic. Loans and advances grew 7% year-on-year and 1% sequentially, reflecting good balance sheet momentum and prudent lending to our core customers, with some benefitting from payment deferrals on principal and interest under TESS. Liquidity position strengthened with customer deposits up 15% year-on-year and 5% sequentially, leveraging FAB's flight-to-safety status. Operating income was 3% lower year-on-year in the first half, primarily due to downward pressure from rate cuts, margin compression and MTM impact on our credit portfolios in the first quarter.

- **Global Transaction Banking (GTB)** had a good momentum, mitigating the negative impact from low interest rates through higher business volumes, with over 400 new cash management mandates won and CASA balances maintained at an average of AED 130 Billion. Trade assets remained stable despite a negative global outlook, driven by innovative solutions like Receivable Financing (RF) and Supply Chain Financing (SCF), where FAB is a market leader. Our international performance remains robust with the establishment of new customer relationships in strategically targeted markets such as Saudi Arabia and Egypt. The first half of 2020 also saw GTB embarking on a transformational journey offering digitally-enabled and innovative solutions to clients such as FAB E-Sign technology, which ensures secure digital signatures on client documents and our trade finance solution, GTB Next.

[1] Real estate businesses (previously structured under Subsidiaries) and SME business (previously structured under PBG) were reorganised under CIB effective 1 April 2020; prior period numbers have been restated where applicable

- **Global Corporate Finance (GCF)** delivered a resilient performance in a stressed market environment, with net interest income in line with the prior comparative period, mainly attributable to a number of jumbo deals, while fee income reduced on account of depressed regional loan market volumes, partially offset by strong performances across Debt Capital Markets, Loan Agency and Issuer Services. With record low interest rates favouring loans, momentum is expected to pick up as clients look to secure liquidity notwithstanding higher market pricing. As #1 Bookrunner and Agent of MENA syndicated loans and the #5 Bookrunner of MENA bonds and Sukuk, GCF is well placed to benefit from a buoyant capital market. We continue to build-out our regional Securities Services proposition and obtained direct Custody licenses in Saudi Arabia, Bahrain and Oman, adding to existing licenses in UAE and Lebanon, with plans to expand our capabilities in other markets in the region.

- **Global Markets (GM)** had a good start to the year with solid performances across products, cushioning some of the initial impact from the pandemic instilled market turbulence. Revenues were softer year-on-year, impacted by the widening of credit spreads and provisions created to reflect heightened risks. The market volatility along with widening of bid-offer spreads meant that FAB was able to extract more value from transactions, specifically in the FX and Rates space. Cross-regional credit flows between Asia and GCC continue to grow at an accelerated pace and in line with our international strategy. GM sales continued to achieve a solid performance in the first half on the back of increased client flow and increased demand for rates and commodity-related hedging solutions, along with restructuring of positions to navigate prevailing economic conditions. We remain actively engaged with our clients and continue to offer market intelligence and risk management solutions.

Personal Banking Group (PBG)

Personal Banking Group (PBG) delivered a resilient performance in the first half of 2020, and took decisive actions to support employees and customers adjust to a rapidly evolving environment due to the COVID-19 outbreak.

Revenue was down 8% year-on-year in the first half to AED 3.1 Billion, driven by an 11% decrease in net interest income mainly due to rate cuts and waivers provided under the Bank's initiatives to support customers. This was partially offset by higher fee income benefitting from a strong start in the first quarter across credit cards and key lending products, impacted by a marked slowdown in consumer spending in Q2 following the COVID-19 outbreak. In the first half of this year, operating costs reduced by 6% year-on-year as a result of cost management initiatives undertaken, while net impairment charges were significantly higher year-on-year reflecting cautious provisioning in a challenging operating environment.

Loans and advances were broadly flat year-on-year at AED 93 Billion, while Customer Deposits stood at AED 76 Billion.

During the quarter, we focused on enhancing our propositions, digital capabilities, new partnerships and ongoing process improvements to deliver greater value and convenience to our customers.

We further enhanced our customers' ability to self-serve by opening seven digital branches across Abu Dhabi, Dubai and Sharjah, enhancing our processes via Robotic Process Automation and launching new mobile banking functionalities. Customers are now able to upload KYC documents, apply for Islamic products, and for customers affected by the pandemic apply for postponements and deferrals. Our mobile wallet Payit was also enhanced with a new solution for payments to domestic workers and the addition of 40 new remittance corridors. The mobile wallet saw both, new user registrations and remittance volumes, increase significantly in the last quarter.

FAB further strengthened its longstanding relationship with government entities by launching Abu Dhabi Pay, a new e-payments platform that offers a secure way for consumers to make digital payments for a range of Government services. We also partnered the Emirates Red Crescent to support a number of community initiatives, including their recent Eid Al Adha campaign. Our Employee Banking team also worked closely with key medical clients to seamlessly open new accounts for medical staff being hired to control the pandemic.

Economic overview and outlook

The second quarter of 2020 was characterised by broad global economic weakness and increasing levels of monetary and fiscal accommodation, as markets experienced the impact of coronavirus-related socio-economic lockdown restrictions.

In the UAE, the economy was hit with a double whammy of curtailed oil production as per OPEC+ commitments and sharply lower oil prices as well as the direct impacts of the coronavirus during the quarter. This exerted pressure on key economic sectors and is expected to lead to a significant contraction in GDP. UAE PMI confirmed April as the low point of the economic cycle with the subsequent months seeing a recovery as it climbed back above 50 in June, led by a gradual easing of the economy and impact of the fiscal and monetary stimulus' announced earlier by the local authorities. In Abu Dhabi, plans announced by the Abu Dhabi Executive Council under the Ghadan 2021 initiatives with a priority placed on COVID-19 related programmes continued to support the local economy.

Recent Awards

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, clients, 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 clients to thrive and grow stronger by managing risk, providing access to capital and facilitating trade flows across developed and emerging markets.

FAB continuously anticipates evolving requirements, develops innovative solutions and moves in tandem with customers to offer an extensive range of tailor-made products via its market-leading Corporate and Investment Banking (CIB) and Personal Banking Group (PBG) franchises.

Aligned to the Abu Dhabi Economic Vision, inspired by global standards and guided by the expectations of stakeholders, FAB takes a leading role in fostering development and driving change towards a more sustainable future. FAB sees beyond traditional banking and embraces a challenger mindset. Its ambition is to contribute to social and human development which creates a dynamic, inclusive and tolerant society.

With total assets of AED 866 Billion (USD 236 Billion) as of June-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 and the best bank in the UAE. The Banker's Top 1000 World Banks 2020 list, measured by Tier 1 capital, ranked FAB as number one in the UAE, second in the Middle East and 85th across the globe - in addition to ranking the bank #109 by assets in the same list. FAB was also ranked first in the UAE, 4th in the Arab world and 303rd globally in Forbes annual ranking of the world's 2000 largest public companies.

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

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

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