# Q2/H1'17 EARNINGS PRESENTATION

July 26, 2017

Grow Stronger

بنك أبوظبي الأول

FAB

First Abu Dhabi Bank

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**Please note that FAB pro-forma consolidated financials at 30 June 2017 serve as the main basis of reference for our Management Discussion & Analysis Report (MDA) and Investor Relations presentation.**

FAB's reviewed consolidated interim financial statements as at 30 June 2017 are prepared on the basis that FGB/NBAD merger was declared effective on 1st April 2017 with FGB being the accounting acquirer as per IFRS 3. Therefore, these financials reflect consolidation of NBAD since 1st April 2017 only, while prior period comparative financial information relates to FGB.

For further information, please refer to the Business Combination note of the reviewed consolidated interim financial statements.

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*Note: Rounding differences may appear throughout the presentation*

# Q2/H1’17 Key Performance Highlights

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- ✓ **Resilient performance** amidst softer operating conditions
- ✓ **Integration progress on track** leading to substantial cost synergy realisation
- ✓ Continued focus on **balance sheet optimisation**
- ✓ **Comfortable liquidity position** with LDR at 85% and LCR well above Basel III glide path
- ✓ **Solid asset quality** albeit retail-led NPL formation
- ✓ **Strengthened capital position** with June-end 17 CET1 at 14.4%

# H1'17 performance vs. FY'17 guidance

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| | FY'17 GUIDANCE | H1'17 ACTUAL | |
|---|---|---|---|
| **LOAN GROWTH** | Mid single-digit | -4% | • *Subdued demand*<br>• *Rundown of low-yielding trade loans*<br>• *Balance sheet optimisation* |
| **CORE REVENUE* GROWTH** | Low single-digit | Headline revenue broadly stable | • *25bps margin contraction*<br>• *Lower business volumes yoy* |
| **C/I RATIO** (EX-INTEGRATION COSTS) | 28%-30% | 27.4% | • *Realisation of substantial synergies*<br>• *Disciplined cost management*<br>• *One-off integ. costs in line with guidance* |
| **COST OF RISK**[1] | 70-75 bps | 74bps | • *Prudent risk management*<br>• *Solid coverage* |
| **ROTE**[2] | ~ 14% | 14.7% | |

*Excluding property-related one-offs and AFS investment gains
1 - Year-to-date annualised
2 - Return on Average Tangible Equity, annualised; based on attributable profit to equity shareholders' excl Tier 1 notes coupon (AED 228Mn) and amortisation of intangibles

# Integration firmly on track

- ✓ **Great progress and key milestones achieved to-date** including completion of Group organisation structure and appointments, and launch of new brand identity
- ✓ **Substantial cost synergies** at c. AED 175 Mn in H1'17, represent **~18% of 2020 annual run-rate target** :

Realised cost synergies in H1'17 — ~AED 175 Mn

2020 annual run-rate target — ~AED 1 Bn

- ✓ **One-off integration costs at ~AED 194 Mn,** in line with guidance
- ✓ **New brand identity to be rolled out across branches and customer touchpoints** in H2'17
- ✓ Continued progress towards **IT system integration** and **network rationalisation**

# Revenue trend reflects softer operating conditions

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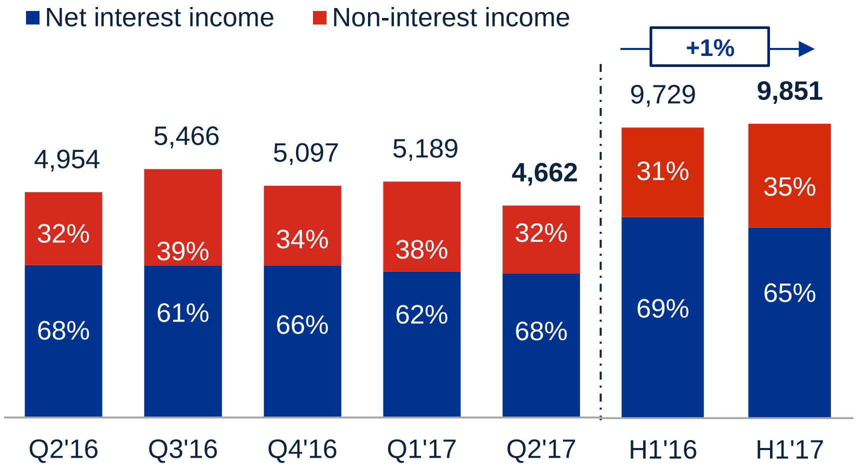
## Key Highlights

- Group Revenue broadly stable yoy reflecting softer operating conditions marked by subdued demand and volatile markets
- H1'17 NII down 5% yoy due to 25bps margin contraction and lower loan balances led by deliberate rundown of FI trade book and corporate repayments
- Non-interest revenues up 16% yoy supported by higher FX and investment income including AFS investment gains in Q1'17
- Although 16% lower yoy, fees and commissions grew 7% sequentially driven by strong momentum in Corporate Finance
- Healthy pipeline in H2'17 expected to drive non-interest income generation higher

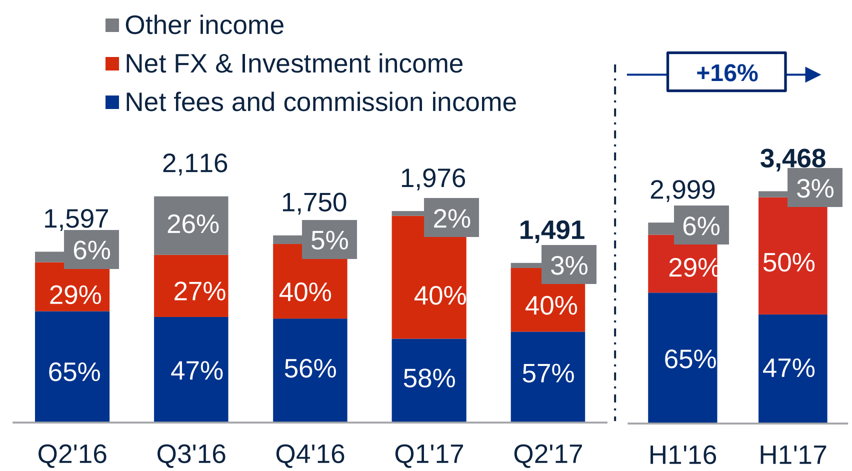
## Operating Income (AED Mn)

| | H1'17 | H1'16 | *YoY %* | Q2'17 | Q1'17 | *QoQ %* |
|---|---|---|---|---|---|---|
| Net interest Income | 6,383 | 6,729 | *-5* | 3,171 | 3,212 | *-1* |
| Fees & commissions, net | 1,631 | 1,953 | *-16* | 845 | 786 | *7* |
| FX and investment income, net | 1,747 | 869 | *101* | 598 | 1,150 | *-48* |
| Other non-interest income | 89 | 177 | *-50* | 49 | 41 | *20* |
| **Total Operating Income** | **9,851** | **9,728** | ***1*** | **4,662** | **5,189** | *-10* |

## Operating Income (AED Mn)




## Non-interest Income (AED Mn)



# Cost control and synergy realisation drive Opex reduction

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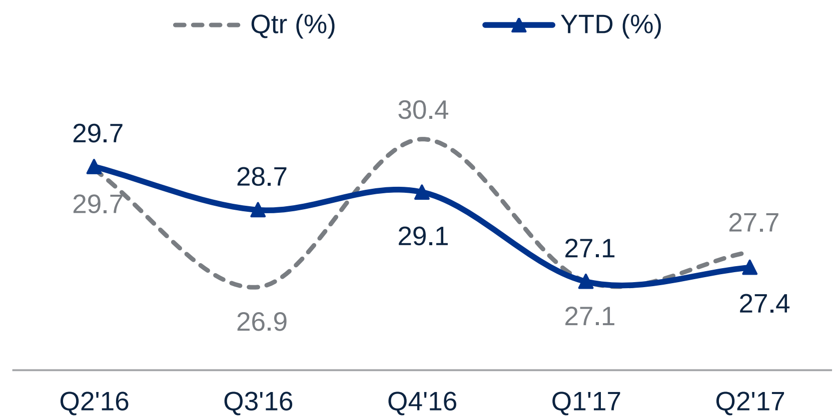
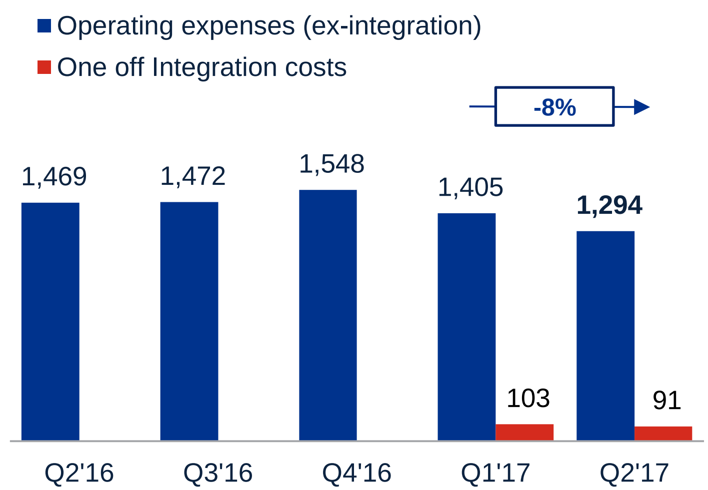
## Key Highlights

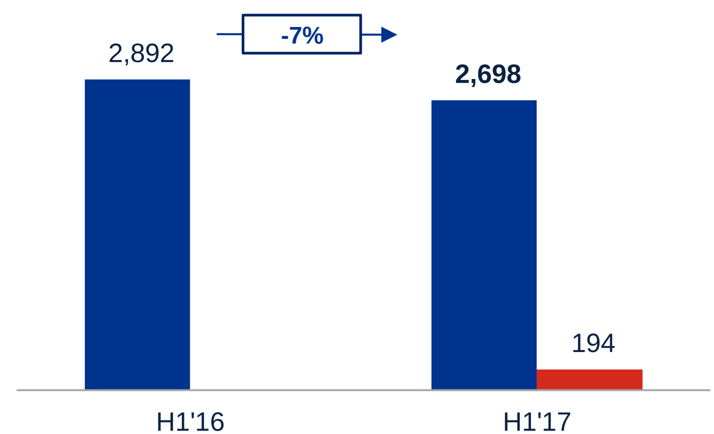
- Operating expenses (ex-integration costs) reduced 7% yoy and 8% qoq, reflecting disciplined cost management and realisation of substantial synergies at onset of integration journey (c. AED 175 Mn)
- Cost synergies during the period were primarily driven by headcount rationalisation and vendor savings
- Integration costs stood at AED 194 Mn (including AED 91 Mn in Q2'17) and mainly relate to professional fees and severances
- C/I ratio (ex-integration costs) stands at industry-leading level of 27.4%, improving from 29.7% in H1'16

## Cost to Income Ratio (ex-integration costs)




## Operating Expenses (ex-integration costs) (AED Mn)



# Asset quality metrics remain solid

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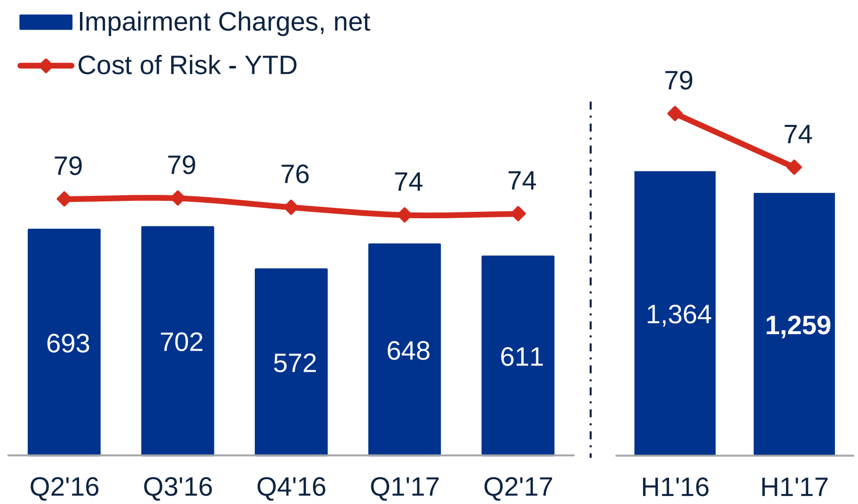
## Key Highlights

- Impairment charges (net) down 8% yoy and 6% qoq led by higher write-backs/recoveries
- NPLs up 13% ytd primarily due to retail-led NPL formation
- NPL ratio at 3.2% is 53bps higher qoq due to combined effect of higher NPLs and lower loan balances
- Portfolio is adequately provisioned with coverage strengthening to 112% from 110% as of Jun'16
- Annualised cost of risk at 74bps improved 5bps from previous year and stands within management range for FY'17
- At AED 7.1 Bn, general provisions represent 1.7% of CRWA vs. 1.5% min. regulatory requirement

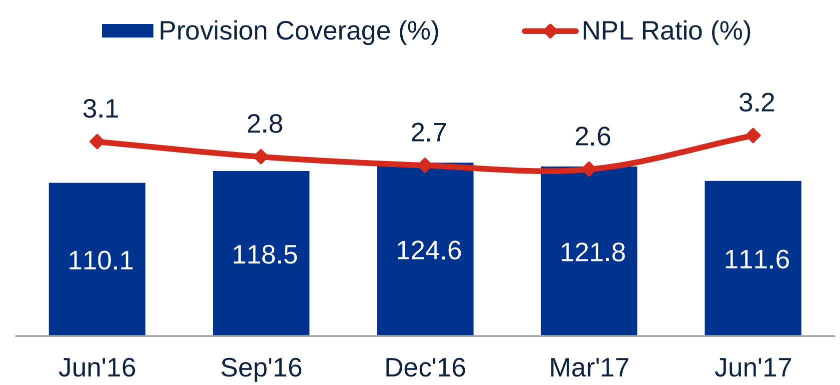
## Impairment Charges, net (AED Mn) & CoR




## NPLs and Provisions (AED Mn)

| | **Jun'17** | Dec'16 | *YTD%* | Jun'16 | *YoY%* |
|---|---|---|---|---|---|
| **NPLs** | **10,497** | 9,280 | *13%* | 10,600 | *-1%* |
| **Provisions** | **11,713** | 11,565 | *1%* | 11,672 | *0%* |
| *Specific* | 4,629 | 4,325 | *7%* | 4,549 | *2%* |
| *General* | 7,084 | 7,240 | *-2%* | 7,124 | *-1%* |

## Provision Coverage & NPL ratio



# Continued focus on balance sheet optimisation

## Key Highlights

Loans and advances*

- Loan book down 4% ytd (AED -13Bn) and 7% qoq (AED -24Bn) on the back of deliberate rundown of trade FI loans (-AED 8Bn), corporate repayments, and continued balance sheet de-risking
- Slowdown in loan origination during second quarter primarily attributed to softer demand

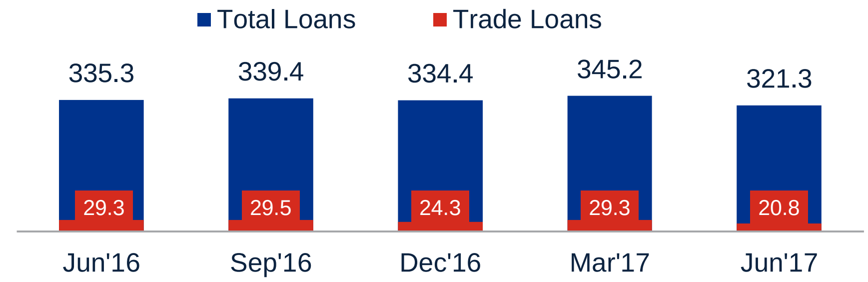
Customer Deposits and other accounts*

- Customer deposits broadly stable ytd and down 4% qoq driven by realisation of funding cost synergies
- Liquidity position remains highly comfortable with loan-to-deposit ratio of 85%
- June-end 17 LCR at 116% stands above Basel III glide path

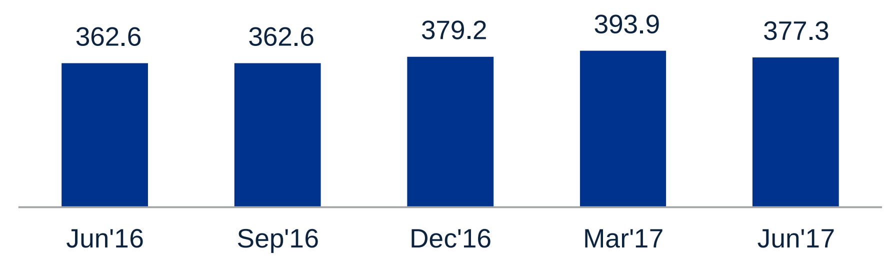
Medium-term borrowings

- USD 1.3 Billion legacy FGB syndicated and bilateral loans were repaid during the second quarter

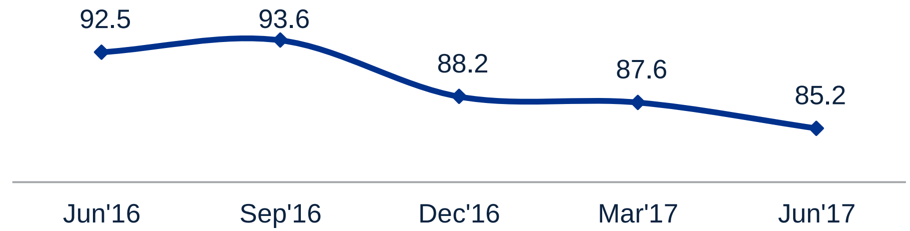
## Loans and Advances* (AED Bn)




## Customer Deposits* (AED Bn)




## Loan-to-deposit ratio* (%)




*Restated net of National Housing Program loans and deposits

# NIMs continue to be impacted by excess liquidity

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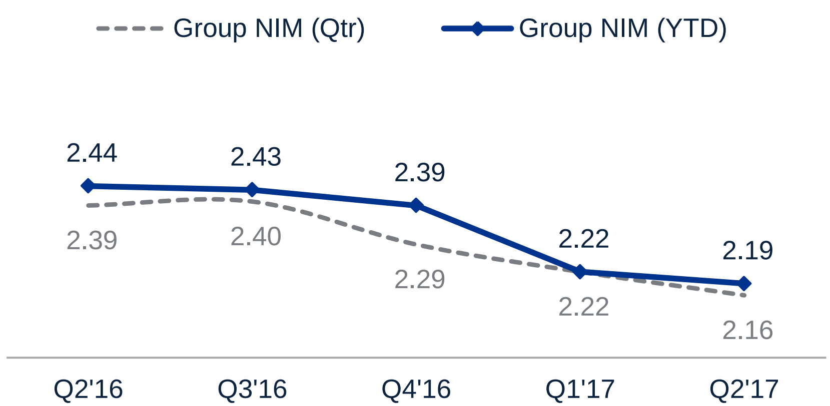
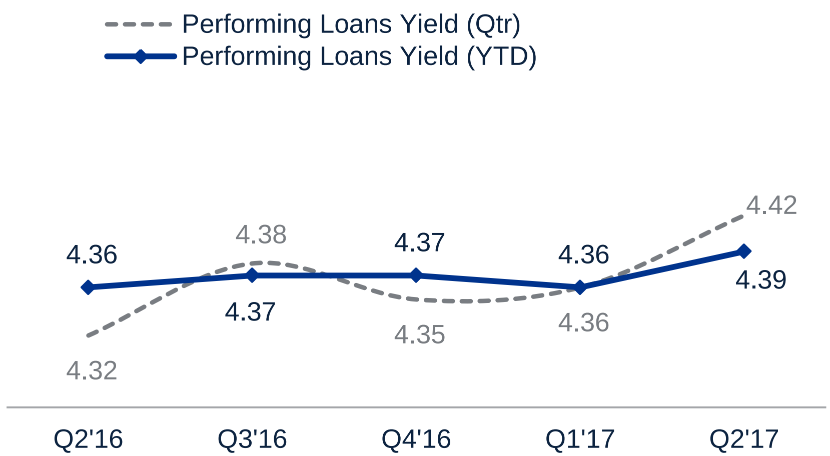
## Net Interest Margin (%)



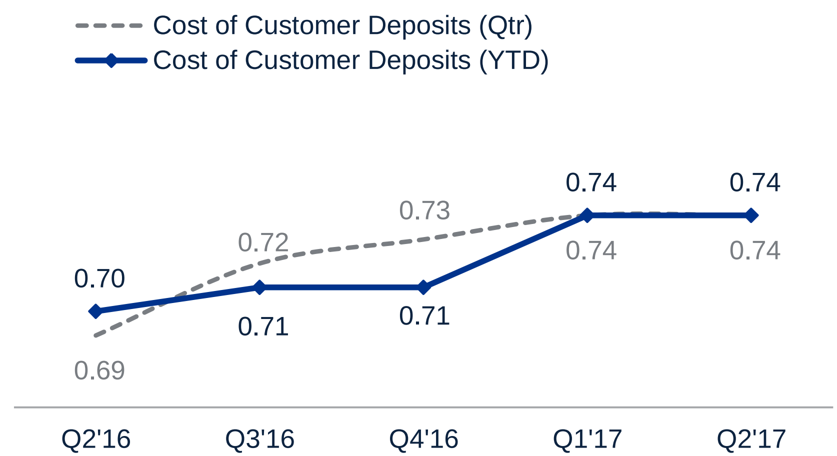

## Key Highlights

- NIMs reduced 25bps yoy and 6bps qoq mainly on the back of short term placement of excess liquidity with Central Banks, as well as competitive pressures
- Performing loan yields improved 3bps yoy and 6bps qoq reflecting asset repricing following benchmark rate hike
- Cost of customer deposits was stable qoq at 74bps, and only 4bps higher yoy, indicating realisation of funding cost synergies

## Performing Loan Yields (%)




## Cost of Customer Deposits (%)

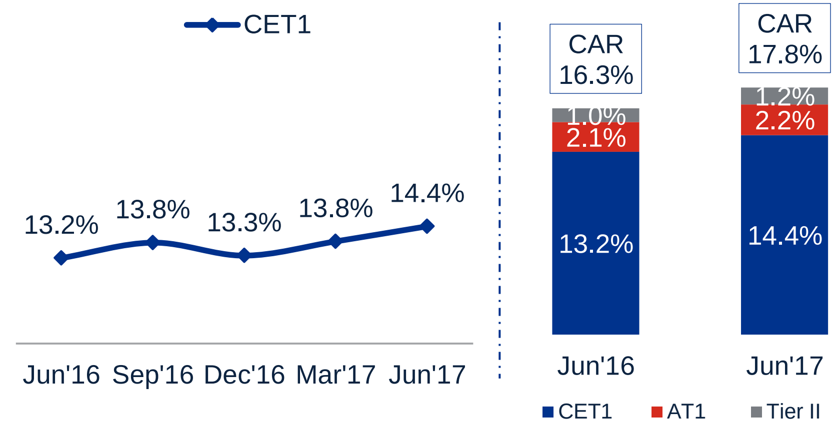


# Strengthened capital position on RWA optimisation

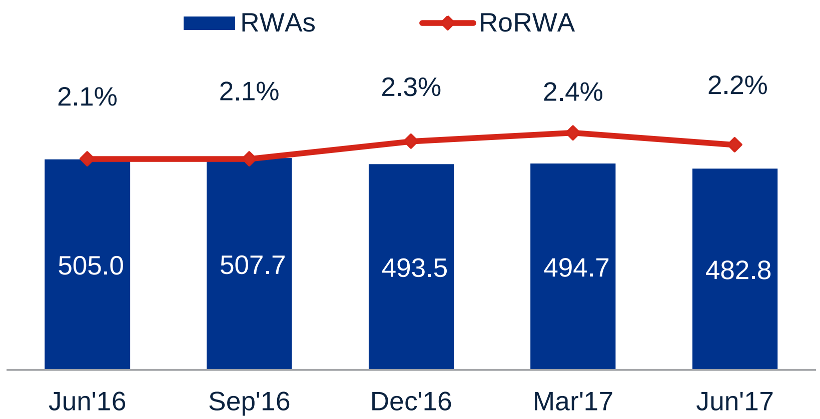
## Key Highlights

- Group capital position strengthened with CET1 ratio and total CAR at 14.4% and 17.8% respectively (vs. 13.2% and 16.3% in Jun'16)
- Improvement in capital ratios primarily driven by RWA optimisation
- FAB officially designated as Domestic Systemically Important Bank (D-SIB); required to hold additional capital buffer of 1.5% by 2019
- Solid returns with Annualised RoTE at 14.7%

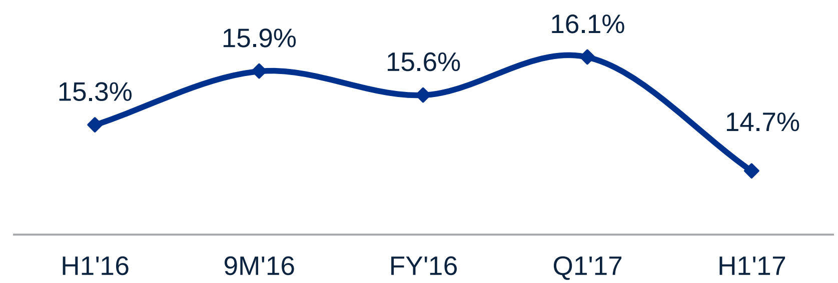
## Strong capital ratios




## RWAs & Return on RWAs[1]




## Annualised RoTE[2] (YTD)




1 - Year-to-date annualised

2 - Return on Average Tangible Equity, annualised; based on attributable profit to equity shareholders' excl Tier 1 notes coupon and amortisation of intangibles

# Segmental Performance

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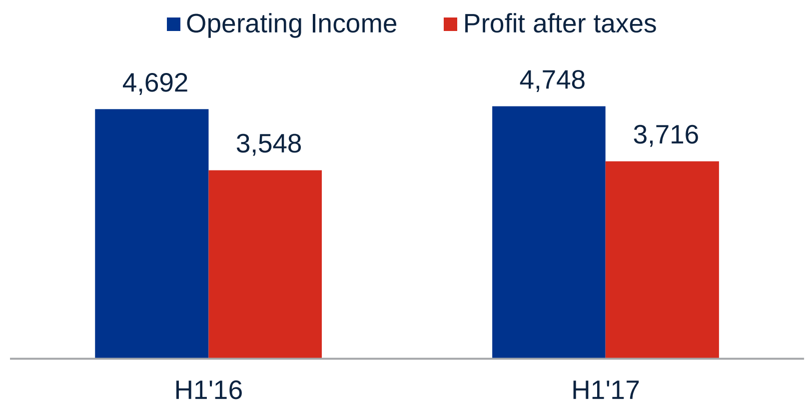
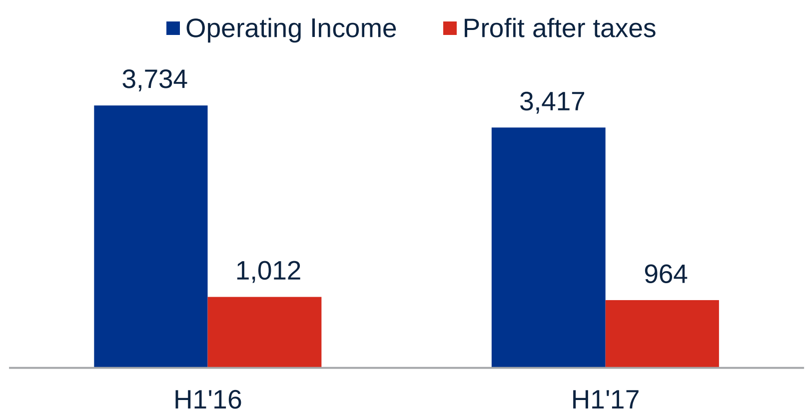
## Corporate & Institutional Banking (AED Mn)

- Resilient performance despite subdued loan demand and increased market volatility
- Headline revenue slightly up yoy (+1.2%) mainly supported by Transaction Banking and Global Markets. Positive momentum in Corporate Finance in Q2 expected to strengthen into second half
- Net profit up 4% yoy supported by provision reversals thanks to optimisation of risk assets
- Market-leading CIB franchise recognised by numerous awards including “Best Bank for Financing in the Middle East” and “Best Investment Bank in the UAE” at the 2017 Euromoney Middle East Awards




## Personal Banking (AED Mn)

- Revenues lower yoy (-9%) mainly due to slowdown in retail spending, and competitive pressures
- Continued focus on optimising balance sheet mix by channeling liquidity towards higher risk-adjusted earning assets
- Business consolidation post merger and related cost savings led to notable reduction in operating expenses yoy
- In line with focus on innovation and digitisation, PBG launched various products including Etihad co-branded banking products and Samsung Pay (Mobile Wallet)



# Segmental Performance (contd..)

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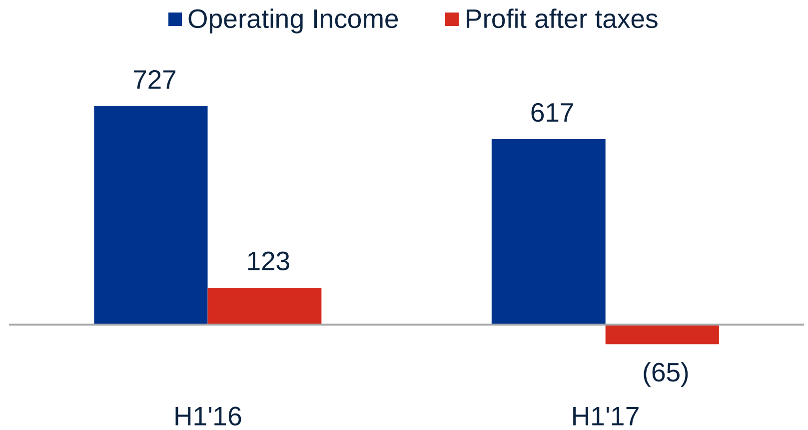
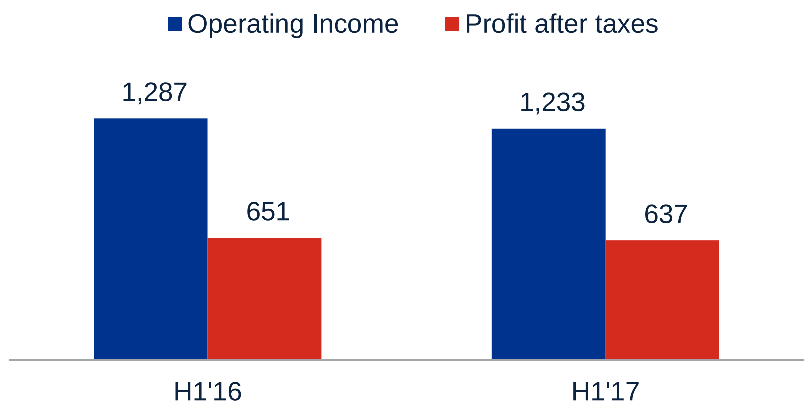
## **Subsidiaries** (AED Mn)

- Revenues lower yoy (-15%) mainly due to lower IIS recoveries and non recurrence of property-related gains realised in H1'16
- Net loss of AED 65 Mn as a result of higher impairments reflecting current economic cycle




## **International** (ex-UAE) (AED Mn)

- The international business remains a key competitive advantage and differentiator for FAB as a significant contributor to liquidity and risk diversification
- H1'17 revenues stood at AED 1.23 Bn, contributing 12.5% to the Group's total revenues
- International deposits grew 5% and represent 26% of Group's total deposits as of June-end 2017



# Revising FY'17 growth guidance, RoTE target intact

| | H2'17 OUTLOOK | REVISED FY'17 GUIDANCE |
|---|---|---|
| **LOAN GROWTH** | • Demand recovery to be partly offset by continued balance sheet optimisation | **Low single-digit negative** |
| **CORE REVENUE* GROWTH** | • Healthy pipeline to support stronger non-interest revenue generation | **Flat** |
| **C/I RATIO** (ex-integration costs) | • Synergy realisation on track | **~28%** |
| **COST OF RISK**[1] | • Prudent risk management | **70-75 bps** |
| **ROTE**[2] | • Continued focus on return optimisation | **~ 14%** |

*Excluding property-related one-offs and AFS investment gains
1 - Year-to-date annualised
2 - Return on Average Tangible Equity, annualised; based on attributable profit to equity shareholders' excl Tier 1 notes coupon and amortisation of intangibles

# APPENDIX

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# Q2/H1'17 Summary Financials

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| Income Statement - Summary (AED Mn) | H1'17 | H1'16 | YoY % | Q2'17 | Q1'17 | QoQ % | Q2'16 | YoY % |
|---|---|---|---|---|---|---|---|---|
| | Half Yearly | | | Quarterly | | | | |
| Net interest Income | 6,383 | 6,729 | -5 | 3,171 | 3,212 | -1 | 3,357 | -6 |
| Fees & commissions, net | 1,631 | 1,953 | -16 | 845 | 786 | 7 | 1,041 | -19 |
| FX and investment income, net | 1,747 | 869 | 101 | 598 | 1,150 | -48 | 456 | 31 |
| Other non-interest income | 89 | 177 | -50 | 49 | 41 | 20 | 99 | -51 |
| **Total Operating Income** | **9,851** | **9,728** | 1 | **4,662** | **5,189** | -10 | **4,954** | -6 |
| Operating expenses (ex-integration costs) | (2,892) | (2,892) | 0 | (1,384) | (1,508) | -8 | (1,469) | -6 |
| Impairment charges, net | (1,260) | (1,367) | -8 | (611) | (649) | -6 | (696) | -12 |
| Non Controlling Interests and Taxes | (211) | (185) | 14 | (105) | (106) | -1 | (107) | -2 |
| **Net Profit** | **5,488** | **5,284** | 4 | **2,562** | **2,926** | -12 | **2,682** | -4 |
| Earning per Share[1] (AED) | 0.97 | 0.94 | 4 | 0.90 | 1.04 | -13 | 0.95 | -5 |

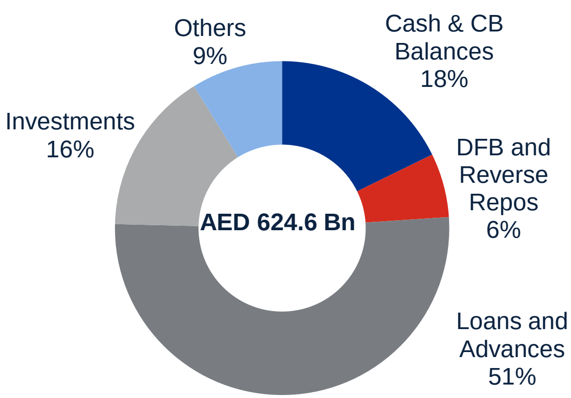
| Balance Sheet[2] - Summary (AED Bn) | Jun'17 | Dec'16 | Ytd % | Mar'17 | QoQ % | Jun'16 | YoY % |
|---|---|---|---|---|---|---|---|
| Loans and advances | 321.3 | 334.4 | -4 | 345.2 | -7 | 335.3 | -4 |
| Customer deposits | 377.3 | 379.2 | -1 | 393.9 | -4 | 362.6 | 4 |
| CASA (deposits) | 113.5 | 108.5 | 5 | 113.6 | 0 | 106.8 | 6 |
| Total Assets | 624.6 | 649.1 | -4 | 660.4 | -5 | 640.3 | -2 |
| Equity (incl Tier-1 capital notes) | 96.6 | 97.0 | 0 | 93.9 | 3 | 92.9 | 4 |
| Tangible Equity[3] | 70.7 | 71.9 | -2 | 68.0 | 4 | 65.4 | 8 |

| Key Ratios (%) | H1'17 | H1'16 | YoY (bps) |
|---|---|---|---|
| Net Interest Margin[1] | 2.19 | 2.44 | -25 |
| Cost-Income ratio (ex-integration costs) | 27.4 | 29.7 | -234 |
| Cost of Risk (bps)[1] | 74 | 79 | -5 |
| Non-performing loans ratio | 3.2 | 3.1 | 10 |
| Provision coverage | 111.6 | 110.1 | 149 |
| Loans-to-deposits ratio | 85.2 | 92.5 | -731 |
| Return on Tangible Equity[4] (RoTE) | 14.7 | 15.3 | -55 |
| Return on Risk-weighted Assets (RoRWA) | 2.2 | 2.1 | 14 |
| CET1 ratio | 14.4 | 13.2 | 120 |
| Capital Adequacy ratio | 17.8 | 16.4 | 149 |

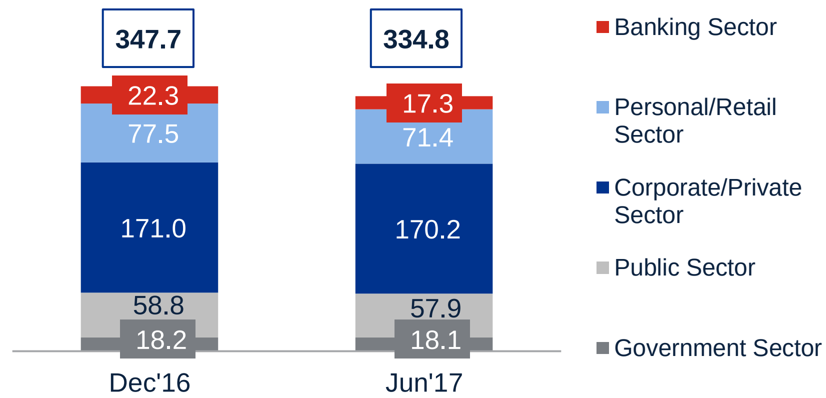
1 - Year-to-date annualised; 2 - Restated net of National Housing Program loans and deposits
3 - Tangible equity is shareholders' equity net of Tier-1 capital notes, goodwill & intangibles
4 - Return on Average Tangible Equity, annualised; based on attributable profit to equity shareholders' excl Tier 1 notes coupon (AED 228Mn – H1'17) and amortisation of intangibles

# Asset & Loan Mix

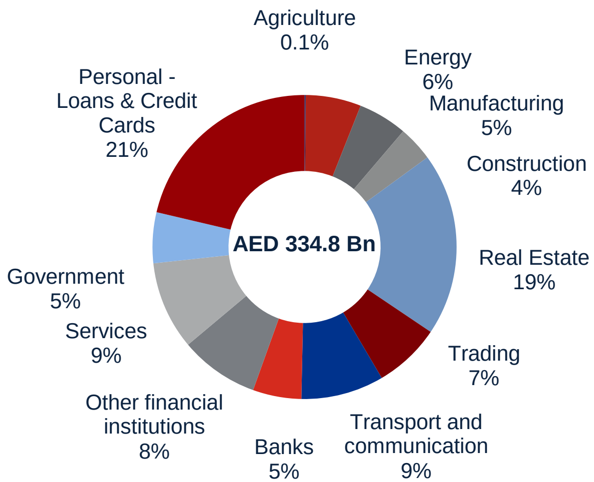
## Asset Mix



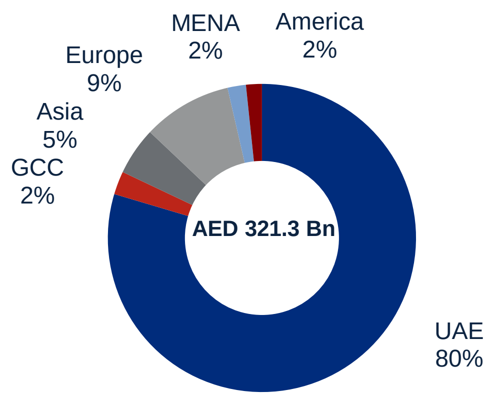

## Gross loans by counterparty (AED Bn)




## Gross loans by economic sector

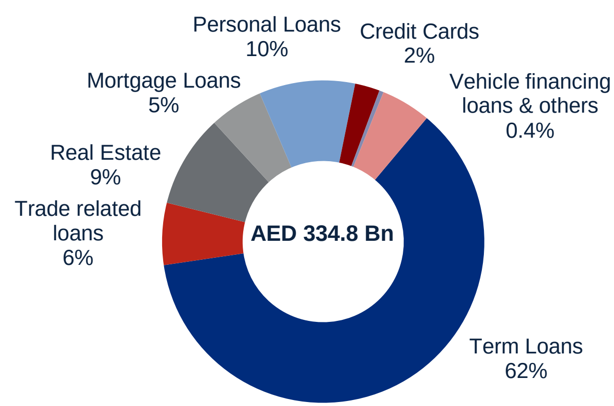



## Net loans by geography*



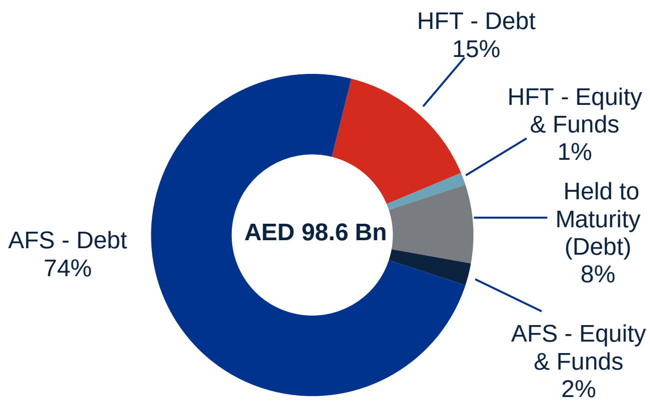

* Based on booking centre

## Gross loans by product

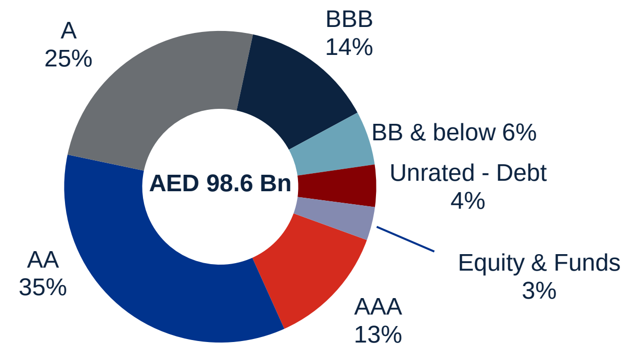


# Investment breakdown

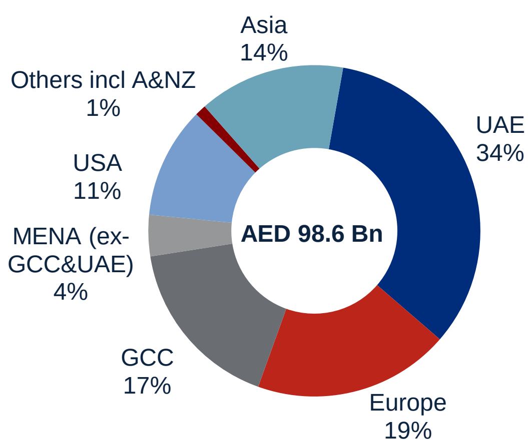
## Investments by type



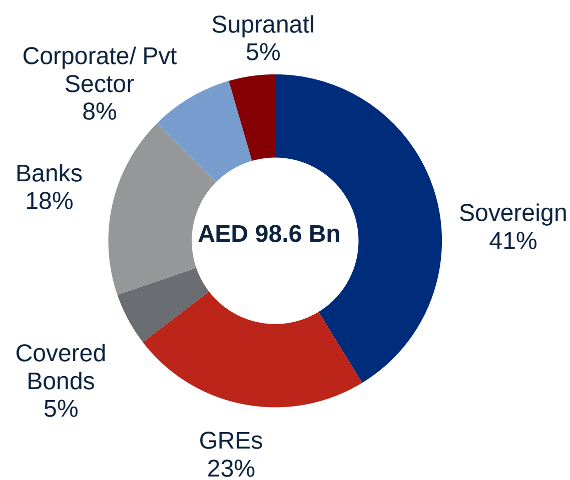

## Investments by ratings




## Investments by geography

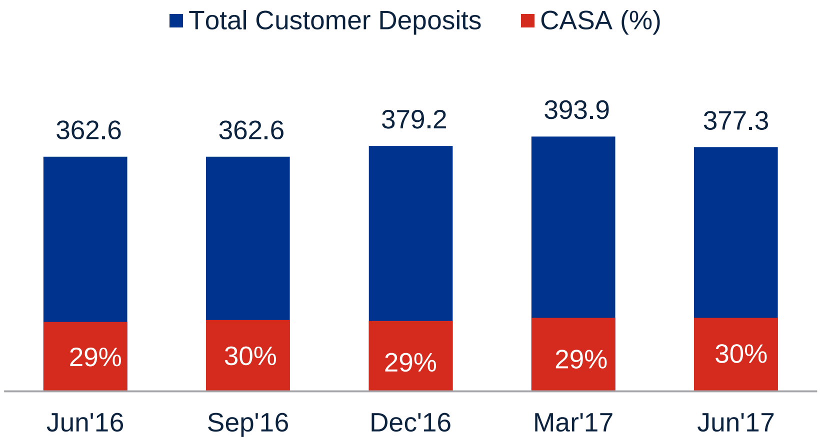



## Investments by counterparty

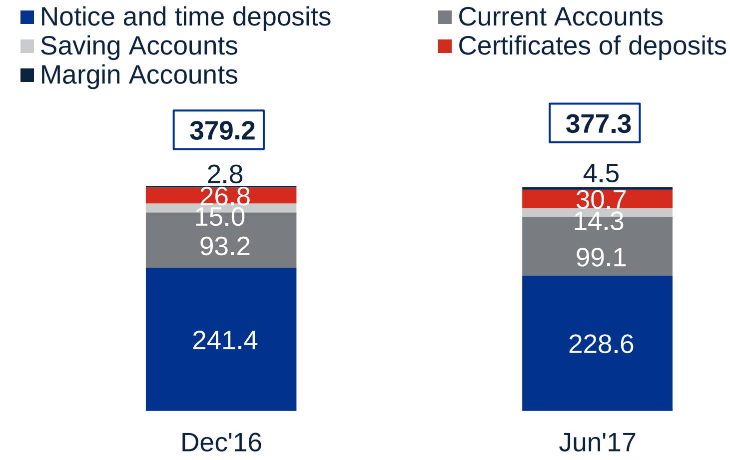


# Customer deposits

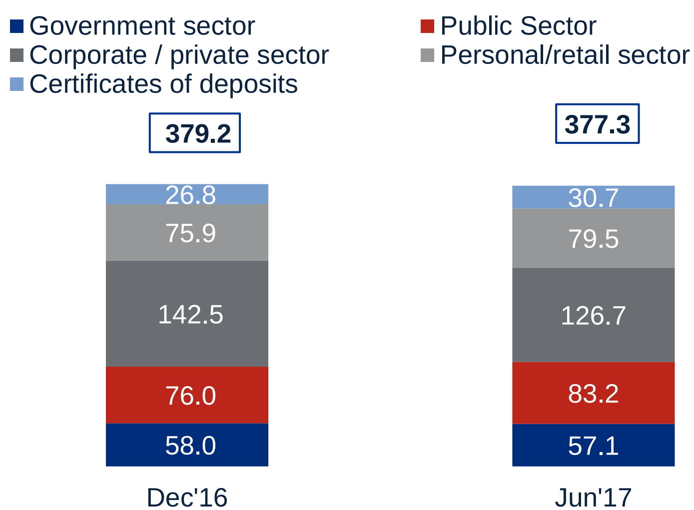
## Customer deposits (AED Bn)



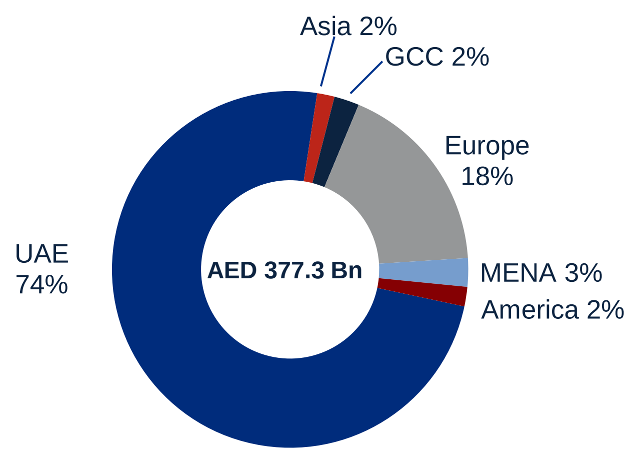

## Customer deposits by account type (AED Bn)




## Customer deposits by Counterparty (AED Bn)




## Customer deposits by geography*




** Based on booking centre*

# Liability mix and Wholesale Funding

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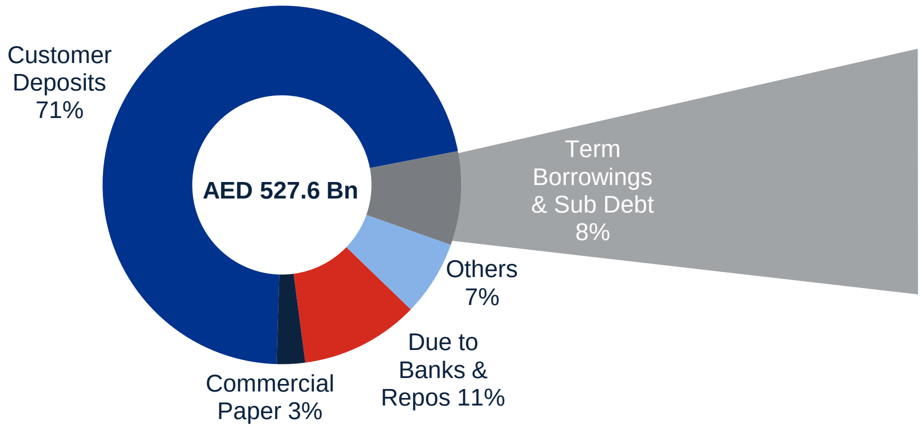
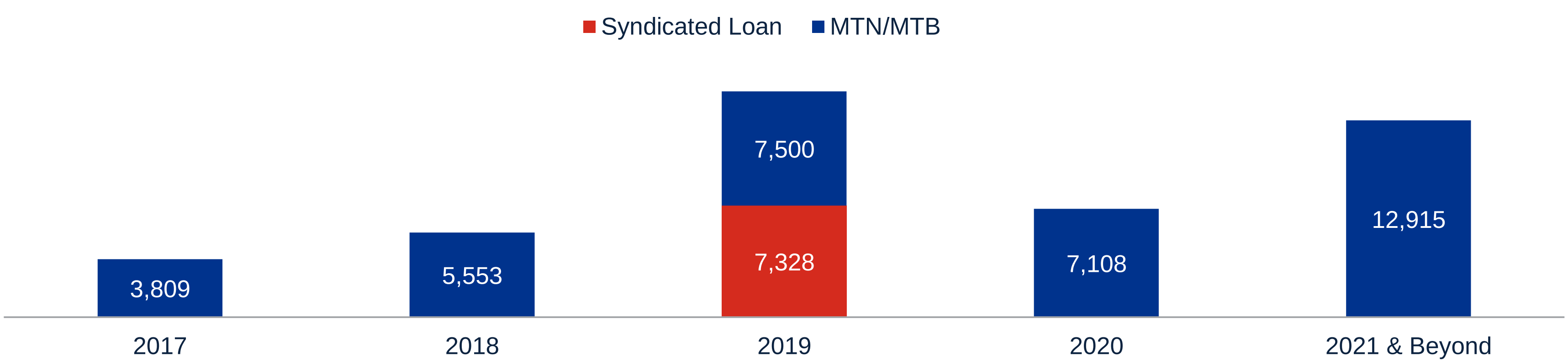
## Liabilities mix




| Wholesale Funding (AED Bn) | Jun’17 |
|---|---|
| Syndicated loan | 7.3 |
| Medium Term Notes/Bonds | 36.9 |
| Subordinated debt | 0.4 |
| **Total** | **44.6** |

## Wholesale funding maturity profile (AED Mn)



# THANK YOU!

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