Management Discussion & Analysis Report

for the nine-month period ended 30 September 2018

Please note that FAB pro forma condensed consolidated interim financial statements as at 30 September 2018 serve as the main basis of reference for our Management Discussion & Analysis Report (MDA) and Investor Relations presentation.

FAB's unaudited condensed consolidated interim financial statements as at 30 September 2018 are prepared on the basis that the FGB/NBAD merger was declared effective on 1st April 2017 with FGB being the accounting acquirer as per IFRS 3. Therefore, these financials reflect the consolidation of NBAD since 1st April 2017.

Abu Dhabi, 22nd October 2018

Management Discussion and Analysis Report
(based on pro forma interim consolidated financials)

FAB Reports Group Net Profit of AED 9.1 Billion, up 12% year-on-year

Third quarter Group Net Profit of AED 3.0 Billion, rises 16% 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 2018 today.

Solid results in last quarter underpin robust nine-month performance

- Group Net Profit at AED 9.1 Billion, up 12% year-on-year; annualised Earning Per Share (EPS) at AED 1.07; third quarter earnings at AED 3.0 Billion, up 16% year-on-year
- Nine-month operating income of AED 14.6 Billion, up 1% year-on-year. Group revenue for 9M'17 included opportunistic investment gains of around AED 400 Million that were not repeated in 2018. Excluding these non-recurring items, 9M'18 operating income is up 4% year-on-year
- Net fees and commissions grew 7% year-on-year

High quality balance sheet and capital strength provide firm foundation for future growth

- Loans and advances (net) at AED 354 Billion, up 3% sequentially and 8% year-on-year, led by sustained momentum in Corporate & Investment Banking
- Customer deposits at AED 455 Billion, up 6% sequentially and 20% year-on-year, primarily driven by significant short-term deposit inflows from the government
- The Group enjoys a strong liquidity position and remains well capitalised with total equity reaching AED 100 Billion, and Common Equity Tier 1 (CET1) ratio at 13.6% as of September-end 2018

Industry-leading asset quality metrics, operating efficiency and improved profitability

- Non-Performing Loan ratio stable sequentially at 3.1%, with a strong provision coverage of 118%
- Industry-leading cost-to-income ratio (excluding integration costs) at 25.6%, continues to improve
- Return on Tangible Equity (RoTE) at 16.5%, up from 14.3% for 9M'17

Continued progress on our integration journey, and on delivering Group strategy

- Systems integration on track to be completed by end of 2018, subject to final testing
- Commencement of operations in Saudi Arabia marks key milestone as the Group strategically aligns footprint in the region

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

"FAB's performance in the first nine months of 2018 demonstrates the fundamental strength of the bank, as we grew our franchise and cemented our position as the UAE's largest listed company by market capitalisation. During this period, we continued to realise our business objectives, set goals and deliver key milestones on our integration journey while maintaining a strong balance sheet with healthy liquidity, asset quality and capital ratios, thereby laying solid foundations for future growth. Alongside our strong financial results, we are equally proud of our wider achievements, including being recognised by *The Banker* as the region's 'Most Innovative Investment Bank' for the third year running and as the 'Safest Bank in Middle East' for the second consecutive year by Global Finance."

He added: “FAB continues to play an important role in advancing the economic goals of the country and in support of Abu Dhabi’s economic growth plans. We are committed to be a key delivery partner for the *Ghadan 2021* development accelerator programme, which will enhance Abu Dhabi’s competitiveness in four key areas: business and investment, society, knowledge and innovation, and lifestyle. Furthermore, with our presence across five continents, we are well positioned to drive economic growth and innovation by facilitating business relationships across geographies.”

“Our business expansion strategy continues to show promise as the bank manoeuvers to take advantage of growth opportunities abroad. In Saudi Arabia, we have completed our first debt capital markets transaction though our Investment Banking franchise and we will be launching our commercial banking activities during the current quarter. In addition, we continue to grow our personal and corporate banking offerings in Egypt. We are confident that our expansion plans will enhance our regional presence and provide an important contribution to the Group and region for years to come.”

Financial review

FAB delivered strong financial results in the nine-month period ended 30 September 2018 with a Group Net Profit of AED 9.1 Billion, up 12% year-on-year, while net profit in the third quarter of 2018 stood at AED 3.0 Billion, improving 16% year-on-year. During Q3 2018, the Group continued to show sustained business momentum, leveraging on a strong balance sheet, a dominant market position, and continued progress in the integration journey.

Group Revenue stood at AED 14.6 Billion, up 1% year-on-year. 9M’17 income included around AED 400 Million opportunistic investment gains that were not repeated in 2018. Excluding these non-recurring items, 9M’18 operating income is up 4% year-on-year, mainly driven by growth in non-interest revenues. Q3’18 Group revenue was recorded at AED 4.8 Billion, up 5% year-on-year.

Net Interest Income (including Islamic Financing Income) came in broadly stable year-on-year, as rate hike benefits and higher business volumes were offset by competitive pricing and risk-asset optimisation. **Net Interest Margin** (NIM) was lower year-on-year at 2.41%, primarily reflecting the dilutive impact of short-term liquidity placements with central banks.

Fees and commissions (net) grew 7% over 9M’17 reflecting good traction in Corporate & Investment Banking (CIB) and a healthy pick up in trade, loan and debt capital market activity. They reduced sequentially mainly due to lower syndication fees against a strong comparative period. Increased client activity and larger volume of currency swaps related to the deployment of excess short-term liquidity, continued to support **FX and investment income** despite the non-recurrence of some investment gains realised in Q1’17.

Group operating expenses decreased by 7% compared to the same period in 2017, reflecting continued progress in delivering cost efficiencies as per the integration plan, as well as cost discipline. As a result, **cost-to-income ratio** (ex-integration costs) improved further from 27.5% in 9M’17 to an industry-leading level of 25.6% in 9M’18. The Group will continue to invest in the business in order to improve customer experience and drive business growth in strategically targeted markets.

Systems integration remains on track for completion by the end of 2018, subject to final testing. The unification of our legacy IT systems will mark the conclusion of the integration process and enable FAB to provide harmonised products and services to customers.

Grow Stronger

FAB Q3/9M'18 Pro Forma Summary Financials

Income Statement - Summary (AED Mn)	Note	**Q3'18**	Q2'18	*QoQ %*	Q3'17	*YoY %*	**9M'18**	9M'17	*YoY %*
Net interest Income		3,263	3,223	*1*	3,244	*1*	9,755	9,743	*0*
Fees & commissions, net		805	861	*(7)*	788	*2*	2,599	2,429	*7*
FX and investment income, net		738	671	*10*	491	*50*	2,065	2,121	*(3)*
Other non-interest income		39	165	*(76)*	89	*(55)*	217	191	*14*
Total Operating Income		**4,845**	**4,920**	***(2)***	**4,611**	***5***	**14,636**	**14,484**	***1***
Operating expenses		*(1,309)*	(1,338)	*(2)*	(1,344)	*(3)*	(3,973)	(4,259)	*(7)*
Incl: Integration costs		*(74)*	*(80)*	*(8)*	*(74)*	*(0)*	*(226)*	*(271)*	*(17)*
Amortisation of intangibles (merger-related)		*(46)*	*(46)*	*(0)*	-	-	*(135)*	-	-
Impairment charges, net		*(435)*	(423)	*3*	(562)	*(23)*	(1,298)	(1,822)	*(29)*
Non Controlling Interests and Taxes		*(80)*	(99)	*(20)*	(100)	*(20)*	(287)	(310)	*(8)*
Net Profit		**3,021**	**3,059**	***(1)***	**2,605**	***16***	**9,078**	**8,093**	***12***
Basic Earning per Share (AED)	a,h	1.05	1.08	*(3)*	0.91	*16*	1.07	0.95	*12*

a) Basic EPS based on attributable profits to equity shareholders' excluding Tier 1 notes coupon (9M'18: AED 382 Mn) and outstanding shares

Balance Sheet - Summary (AED Bn)	Note	**Sep'18**	Jun'18	*QoQ %*	Sep'17	*YoY %*	Dec'17	*Ytd %*
Loans and advances, net		354	345	*3*	328	*8*	330	*7*
Customer deposits		455	431	*6*	379	*20*	396	*15*
CASA (deposits)	b	155	145	*7*	148	*4*	150	*3*
Total Assets		732	692	*6*	644	*14*	669	*9*
Equity (incl Tier 1 capital notes)		100	97	*4*	99	*1*	102	*(2)*
Tangible Equity	c	70	66	*5*	73	*(5)*	71	*(2)*

b) CASA deposits include current, savings and call accounts; periods prior to Mar-2018 have been reclassified to include call accounts

c) Tangible equity is shareholders' equity net of Tier 1 capital notes, goodwill & intangibles

Key Ratios (%)	Note	**Q3'18**	Q2'18	*QoQ (bps)*	Q3'17	*YoY (bps)*	**9M'18**	9M'17	*YoY (bps)*
Net Interest Margin	h	2.33	2.41	*(9)*	2.55	*(23)*	2.41	2.50	*(9)*
Cost-Income ratio (ex-integration costs)		25.5	25.6	*(6)*	27.5	*(204)*	25.6	27.5	*(193)*
Cost of Risk (bps)	d,e,h	50	53	*(3)*	66	*(17)*	51	71	*(20)*
Non-performing loans ratio	d	3.1	3.1	*9*	3.0	*13*	3.1	3.0	*13*
Provision coverage	d	118	123	*(458)*	109	*930*	118	109	*930*
Loans-to-deposits ratio		78	80	*(220)*	87	*(893)*	78	87	*(893)*
Return on Tangible Equity (RoTE)	f	16.9	18.2	*(131)*	13.7	*320*	16.5	14.3	*227*
Return on Risk-weighted Assets (RoRWA)	h	2.4	2.4	*(5)*	2.2	*23*	2.5	2.2	*22*
CET1 ratio	g	13.6	13.1	*56*	14.9	*(125)*	13.6	14.9	*(125)*
Capital Adequacy ratio	g	17.0	16.4	*54*	18.4	*(140)*	17.0	18.4	*(140)*

d) As 2018 ratios are based on IFRS9 accounting and ratios for prior periods are based on IAS39 accounting, they may not be fully comparable

e) On Loans and Advances

f) Return on Average Tangible Equity, annualised; based on attributable profit to equity shareholders' excl coupon on Tier 1 capital notes

g) As per UAE Central Bank's Basel III framework; ratios prior to end-2017 are based on UAE CB's Basel II framework

h) Annualised

Rounding differences may appear in above table

Credit quality

Portfolio quality remained healthy. **Non-Performing Loan ratio** was stable sequentially at 3.1% while **provision coverage** remained strong at 118%, compared to 109% as of September-end 2017. **Group impairment allowance** (on loans and advances) stood at AED 13.2 Billion as of September-end 2018.

Solid provision buffers coupled with risk-asset optimisation, led to a 29% reduction in **Group impairment charges** (net) year-on-year. Annualised **cost of risk** (on loans and advances) stood at 51bps for 9M'18, against 71bps in the first nine months of 2017.

Balance sheet trends

The Group's balance sheet remains solid, underpinned by a strong liquidity position and a diversified funding profile, providing a solid foundation for future growth.

Lending momentum was sustained during the last quarter with **loans and advances (net)** up 3% sequentially, and 8% year-on-year to AED 354 Billion, mainly driven by the corporate business and the execution of a healthy pipeline in the UAE and across strategically targeted markets.

Customer deposits continued to grow faster than loans adding 6% sequentially and 20% year-on-year to AED 455 Billion, primarily on the back of significant short-term government deposit inflows. Current Accounts and Saving Accounts (CASA) balances grew 7% against June-end 2018 to AED 155 Billion, and represent 34% of overall deposits.

FAB continues to enjoy a strong liquidity position as measured by the **Group Liquidity Coverage Ratio (LCR)** which stands at 123% as of September-end 2018, well above the minimum requirement of 90% for the current year.

On the **wholesale funding** side, strong investor demand for FAB's credit from both regional and international investors has allowed the Group to access multiple funding markets at an attractive cost and raise USD 2.2 Billion year-to-date. This included USD 1 Billion raised through a Sukuk issuance in the first quarter, a five-year public Swiss Franc 200 Million transaction and the first GBP denominated private placement from the region since 2014. The Group's strong and diversified liquidity profile enabled the early disbursement of USD 500 Million as a partial repayment of the Group's USD 2 Billion syndicated loan due in 2019.

Shareholders' equity, capital and returns

Basel III **Common Equity Tier 1** (CET1) ratio strengthened sequentially from 13.1% to 13.6%, mainly on the back of internal capital generation and risk discipline. **Shareholders' equity** (including Tier 1 capital notes) grew 1% year-on-year to reach AED 100 Billion, placing FAB in a leading position among Middle Eastern banks in terms of capital strength. Capital Adequacy and Tier 1 Capital ratios improved to 17.0% and 15.8% respectively as of September-end 2018, compared to 16.4% and 15.3% as of June-end 2018.

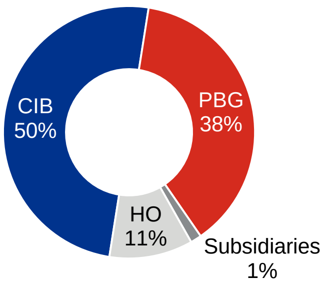
Return on Tangible Equity (RoTE) for the nine-month period ended September 2018 stood at 16.5%, up from 14.3% for 9M'17.

Business performance

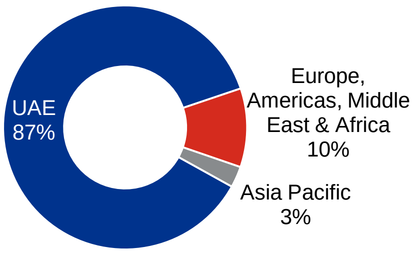
Business contributions to Group Revenue remained broadly unchanged sequentially. The Corporate & Investment Banking (CIB) Group generated 50% of Group Revenue in the first nine months of 2018, while the Personal Banking Group (PBG) contributed 38%. Head Office (HO) and Subsidiaries generated 11% and 1% of Group operating income respectively.

Revenue from international locations increased 6% year-on-year, reflecting business growth in the context of the strategic alignment of FAB's global footprint, contributing 13% to total operating income in 9M'18. Loans grew 22% year-on-year driven by Asia and the Middle East, while liquidity remained solid.

Revenues by Segment



Revenues by Geography



Corporate & Investment Banking (CIB) Group

CIB delivered a strong performance during the period, as the business continued to demonstrate leading capabilities regionally and internationally, while successfully navigating competitive headwinds and market volatility.

CIB revenue in the first nine months of 2018 grew 8% against a strong comparative period in the previous year, which included opportunistic trading gains. This strong result was driven from several areas including cash management, trade, loan and capital markets, and from our ALM portfolio following increased liquidity. Customer net interest income for the period grew year-on-year mainly on the back of higher revenue from cash management stemming from new client mandates and rate hike benefits, which more than offset softening in margins from our loan book due to competition. Fees and commissions were up 17% year-on-year across many of our businesses, including trade due to an increase in unfunded volumes, DCM & LCM with a record number of transactions in the GCC loan market, as well as Loan Agency, Security and Issuer Services. Against a backdrop of increased volatility, Global Markets recorded a 10% revenue growth year-on-year driven by enhanced returns from Credit and ALM portfolios. Liquidity increased further, strengthening our balance sheet, ratios and revenue through optimal deployment.

Lending activity in the UAE, regionally and in Asia Pacific sustained in the third quarter of 2018, with the overall CIB loan book expanding 3% sequentially, bringing year-on-year growth to 12%. Capitalising on a strong liability franchise, and superior credit ratings, customer deposits grew 27% from September last year.

September 2018 saw a material uptick in debt capital market activity across Asia Pacific and MENA with several deals executed during the month totaling USD 4.4 Billion. In addition, the origination of the first DCM transaction in Saudi Arabia through the recently established investment banking subsidiary was a key milestone for the Group as it strategically leverages opportunities in a new market and the region's largest economy.

Bonds & Sukuk league tables continue to be influenced by major sovereign deals earlier in the year, however FAB throughout 2018 has led more deals than any other bank in MENA/GCC loan markets. The Group was also recognised as the “Most Innovative Investment Bank in the Middle East” by *The Banker* for the third consecutive year, highlighting the transformative solutions provided to clients over the past 12 months.

Personal Banking Group (PBG)

Personal Banking achieved a solid performance in the first nine months of 2018, with profitability improving on the back of a reduction in operating expenses, coupled with a decrease in impairment charges. Operating income was 3% lower year-on-year mainly due to the adverse impact of risk-asset optimisation on interest and non-interest revenue sources.

During the third quarter, PBG’s loan portfolio grew 1% sequentially on the back of successful digital lead sourcing and product campaigns, translating to resumed momentum in personal lending and credit cards. Customer deposits saw a healthy growth of 4% sequentially, including higher CASA balances.

During the period, the business continued to focus on delivering distinctive propositions, improving customer service, as well as growing acquisitions in a highly competitive market while increasing reliance on digital channels to drive sales and enhance productivity. PBG also continued to enhance offering across Private Banking and Elite, as well as Business Banking by developing new bundled products to meet customer needs, and enhance cross-sell.

In September, FAB organised the National Housing Exhibition which was attended by over 7,000 potential customers. The Group’s strategic focus on payments also led to the enhancement of FAB’s *Payit* proposition with the successful launch of the region’s first sound based payment authorisation.

Going forward, PBG will continue to focus on enhancing market share in the home market, and improving customer experience. The business will also launch its product and services offering in Saudi Arabia during the current quarter, as well as expand capabilities in Egypt over the medium term.

Economic Overview

In its latest World Economic Outlook publication, the IMF has cut its forecast for global growth this year and for 2019 to 3.7% from a prior forecast of 3.9%, on the back of increasing trade tensions between the US and China, as well as the impact of sharper than expected rate increases.

Overall, the macroeconomic outlook across MENA and the GCC, remains favorable as we head into the final quarter of 2018 and towards 2019, with economic growth in the region expected to gradually improve from 2.2% in 2017 to 2.4% in 2018 and to 2.7% in 2019, before stabilising at about 3% in the medium-term.

For the UAE, the IMF expects growth to strengthen over the next few years on the back of higher oil prices, accelerated government spending and stronger private sector growth. This would translate to 2.9% real GDP growth in 2018 (up from a previous forecast of 2.0%), and 3.7% in 2019.

Abu Dhabi growth outlook has also been revised upward to 2.7% and 3.4% respectively for 2018 and 2019, against previous forecasts of 1.3% and 2.0%. Another key initiative underpinning this positive outlook is the *Ghadan 2021* development program, which is becoming a key pillar to the competitiveness of Abu Dhabi (and broader UAE) over the next three years. The announced stimulus package will support 50 initiatives across four areas: Business and Investment, Society, Knowledge & Innovation, and Lifestyle. Out of a total envelope of AED 50 Billion over the next three years, AED 20 Billion are expected to be allocated for 2019.

Recent Awards

- Best Investment Bank in the UAE 2017, 2018
- Best Bank for Liquidity Management in the Middle East 2017, 2018
- Best Trade Finance Bank in MENA 2017, 2018
- Best Investment Bank in the UAE 2018
- Best Bank in the UAE 2018
- Best Cash Management Bank in the UAE 2018
- Middle East's Best Banks for Asia 2018
- Most Innovative Investment Bank from the Middle East 2018
- Leading Corporate for Investor Relations in the UAE & Middle East
- Emerging Markets M&A Deal of the Year 2018
- Safest Bank in the ME 2018

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 732 Billion (USD 199 Billion) as of September-end 2018, 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. In the Top 1000 World Banks 2018 ranking by The Banker Magazine, FAB ranks #1 in the Middle East and #81 in the World by capital strength, and #116 by total assets gloabally. Through a strong, diversified balance sheet, leading efficiency and a solid corporate governance structure in place, FAB is set to drive growth forward.

For further information, visit: www.bankfab.com

Recent Strategic Partnerships

FAB is the official partner of the Special Olympics World Games Abu Dhabi 2019, in line with its commitment to benefit the communities in which it operates and the Government's drive for greater tolerance and inclusion.

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

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First Abu Dhabi Bank

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