

Management Discussion and Analysis Report

For the six month period ended 30 June 2018

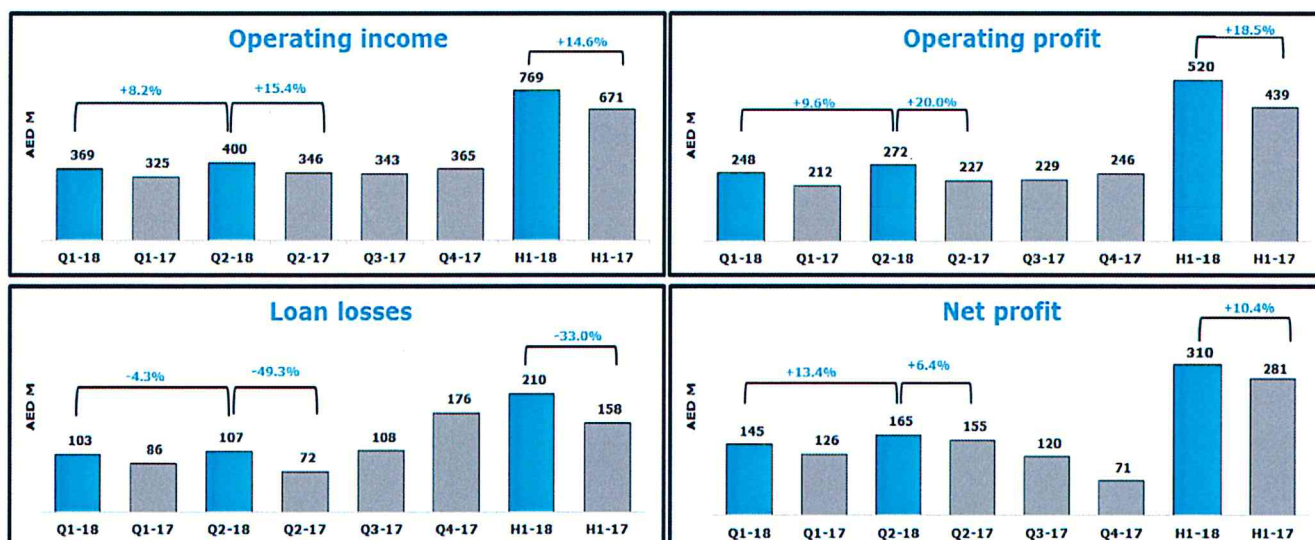
National Bank of Fujairah PJSC (NBF) – H1 2018 net profit up 10.4% as a result of its resilient business strategy

17 July 2018: National Bank of Fujairah PJSC (NBF) is pleased to announce its results for the six month period ended 30 June 2018.

INCOME STATEMENT HIGHLIGHTS

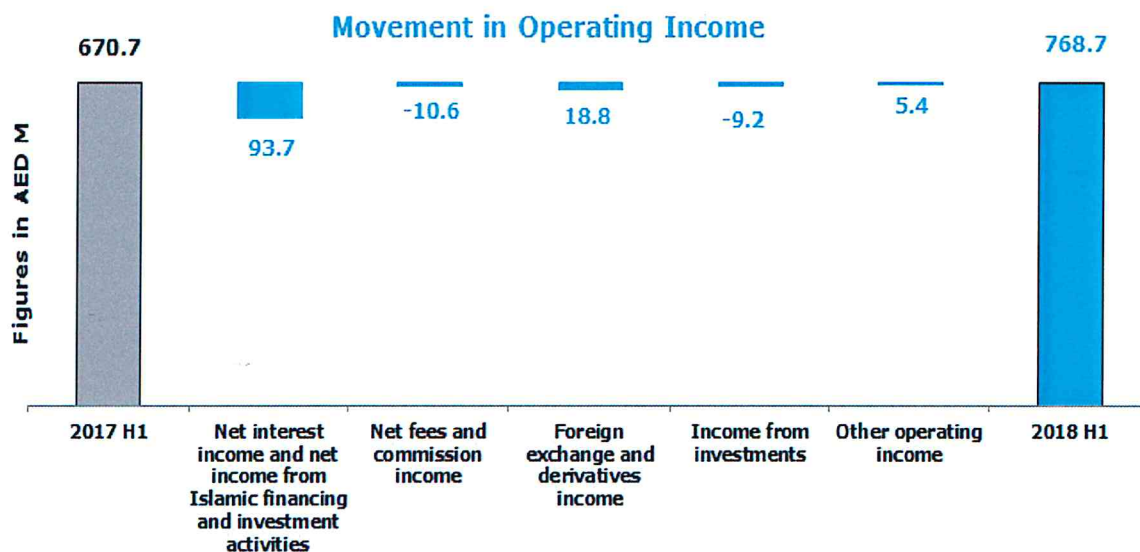
NBF posted a net profit of AED 164.8 million in the second quarter of 2018, up 13.4% over the first quarter of 2018, which reflects a high level of resilience in its core business. On the back of a strong Q2 2018 performance, NBF reported a net profit of AED 310.2 million for the half year ended 30 June 2018 up 10.4% over the corresponding period of 2017. Compared to December 2017, customer financing was up 8.2% reflecting the strength of the core business. The Bank's performance reflects the continuing focus on core business growth, proactive asset and liability management and disciplined cost management.

Net Profit Progression



Performance Highlights

- Operating income for the six month period at AED 768.7 million saw a growth of 14.6% compared to the corresponding period of 2017. This was achieved by robust business growth, enhanced balance sheet management in a rising interest rate environment, efficient management of liquidity and effective pricing strategies that helped in improving margins and return on capital.

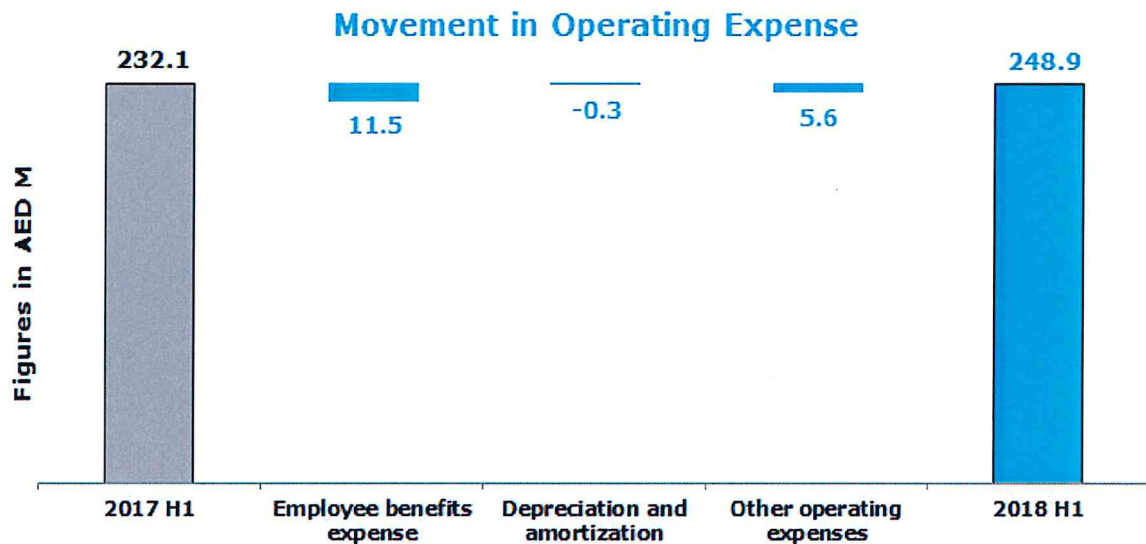


- Net interest income and net income from Islamic financing and investment activities for the six month period grew by 21.7% to AED 525.1 million compared to the corresponding period of 2017.
- Lower fee and commission on account of reduction in the traditional lending and trade related fees.
- Foreign exchange and derivatives income experienced an outstanding growth of 36.7% at AED 70.0 million for the six month period compared with AED 51.2 million in the corresponding period of 2017.
- Lower investment income reflects volatility in the global equity market and impact on the valuations in the rising interest rate scenario.

Figures in AED M

	JUN-18	JUN-17	YoY Change%	Q2'18	Q1'18	Q2'17	QoQ	YoY
Net interest income and net income from Islamic financing and investment activities	525	431	21.7%	281	244	224	14.9%	25.3%
Net non-interest income and net income from Islamic financing and investment activities	244	239	1.8%	119	125	122	-4.9%	-2.6%
Operating income	769	671	14.6%	400	369	346	8.2%	15.4%
Operating expense	-249	-232	-7.2%	-128	-121	-119	-5.3%	-6.9%
Operating profit	520	439	18.5%	272	248	227	9.6%	20.0%
Provisions	-210	-158	-33.0%	-107	-103	-72	-4.3%	-49.3%
Net profit for the period	310	281	10.4%	165	145	155	13.4%	6.4%

- Operating profit recorded a year-on-year growth of 18.5% reaching AED 519.9 million compared to AED 438.6 million in the corresponding period of 2017. Demonstrating its continued focus on quality core business growth and profitability, NBF's operating profit for the three month period was AED 271.9 million compared with AED 226.6 million in the corresponding period of 2017; a jump of 20.0%.



- Operating expenses increased by 7.2%, reflecting NBF's disciplined cost management, prudent investments in our businesses, systems and infrastructure, including a set of digitalisation initiatives to enhance our future offerings and customer service. Cost-to-income ratio improved to 32.4% from 34.6% in the corresponding period of 2017.
- NBF's prudent provisioning policy resulted in net impairment provision of AED 209.7 million for the six month period based on the IFRS 9 accounting standard compared to AED 157.6 million in the corresponding period of 2017. The NPL ratio improved to 5.3% from 5.5% as at 31 December 2017. Total provision coverage ratio (including credit risk reserve) improved to 99.2% from 89.5% as at 31 December 2017.

STATEMENT OF FINANCIAL POSITION – HIGHLIGHTS

Figures in AED M

	JUN-18	DEC-17	Change %	JUN-'18	MAR-'18	JUN-'17	QoQ	Vs JUN-'17
Total Assets	38,092	36,656	3.9%	38,092	36,605	34,045	4.1%	11.9%
Loans and Advances and Islamic Financing Recievables	26,048	24,066	8.2%	26,048	25,210	23,913	3.3%	8.9%
Customer Deposits and Islamic Customer Deposits	28,186	27,865	1.2%	28,186	27,789	25,284	1.4%	11.5%
Total Shareholders' Equity	4,870	4,891	-0.4%	4,870	4,705	4,734	3.5%	2.9%

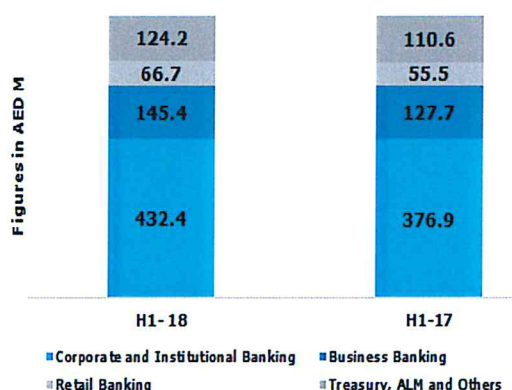
- NBF's total assets amounted to AED 38.1 billion as at 30 June 2018 (31 December 2017: AED 36.7 billion), up 3.9% from 31 December 2017 and up by 11.9% from 30 June 2017.
- Loans and advances and Islamic financing receivables rose 8.2% from AED 24.1 billion at 2017 year end to AED 26.0 billion, and up by 8.9% from 30 June 2017. The growth compares well relative to the marginal increase in credit growth at the industry level, reported in April 2018 in the UAE Central Bank's statistics report.
- Customer deposits and Islamic customer deposits stood at AED 28.2 billion compared to AED 27.9 billion at 2017 year end, and up by 11.5% from 30 June 2017.
- Investments and Islamic instruments were up 34.4% compared to 2017 year end, representing 6.8% of total assets.
- Shareholders' equity stood at AED 4.87 billion compared to AED 4.89 billion at 2017 year end, and up by 2.9% from 30 June 2017.

KEY PERFORMANCE INDICATORS

- Strong capital adequacy and lending to stable resources ratios were maintained at 16.8% (Tier 1 ratio of 14.4%) and 90.4% respectively, well ahead of Central Bank's minimum requirements. The Bank continues to maintain a strong eligible liquid assets ratio at 18.8%.
- At the NBF's Annual General Meeting held on 18 March 2018, shareholders approved the conversion of additional tier 1 capital notes of AED 500 million into ordinary shares at a conversion factor of AED 2.85 per capital note and authorized the Board of Directors to seek all requisite regulatory approvals and execute the conversion. The regulatory approvals are in progress and the conversion would further augment the common equity tier 1 (CET 1) ratio by approximately 150 basis points.
- Return on average assets improved to 1.7% from 1.6% for the corresponding period in 2017 and return on average equity improved to 12.7% from 12.1% for the corresponding period in 2017.
- The lending to stable resources ratio (LSRR) of 90.4% remained well below the UAE Central Bank ceiling of 100%.
- NBF's rating was re-affirmed at Baa1 / Prime-2 for deposits and A3 for counterparty risk assessment by Moody's and BBB+ / A-2 by Standard & Poor's, both with a stable outlook, highlighting the bank's underlying strength, prudent risk management and resilience.

OUR SEGMENTED FOCUS

Segment's contribution to Operating Income



NBF's strategy continues to revolve around client relationships, which is reflected in the segmented approach adopted by the Bank to serve its customer needs with a dedicated focus. This also helps in diversification and maintaining stable growth.

The operating income from corporate and institutional banking customers (including business banking) for the six month period ended 30 June 2018 was AED 577.8 million, up 14.5% compared to the corresponding period of 2017. Operating income from retail banking has grown 20.3%, while Treasury, ALM & others have increased by 12.3% compared to the corresponding period of 2017. The overall growth reflects the Group's strategy of reliably supporting its quality customers and at the same time diversifying its sources of business.

OPERATIONAL HIGHLIGHTS

- Regulatory approvals for the opening of Representative Office at Antwerp, Belgium has been received from Belgium Central Bank and the establishment is in progress.
- The Bank significantly exceeded the Emiratisation targets emanating from the new scoring system introduced and has been acknowledged by CBUAE for its efforts and commitment in this respect.
- NBF participated at the Fujairah International Career and Education Fair 2018 that took place at the Fujairah Exhibition Center in April 2018. The focus was on meeting young Emirati talent interested in a banking career and highlighting NBF's efforts in recruiting and training UAE Nationals to take on leadership roles within the bank.
- The Bank partnered with the Fujairah Welfare Association and hosted a series of Ramadan tents during the Holy Month of Ramadan to lend a helping hand to workers in the emirate. Sponsoring meals to over 18,000 people throughout the month is indicative of NBF's commitment to give back to the community in its home emirate and beyond. NBF also contributed towards Mission to Seafarers (MtS), a charitable initiative dedicated to safeguarding the welfare of seafarers across the UAE and alleviating the hardships they endure at sea.

AWARDS AND ACCOLADES

- NBF maintained its leading position as the preferred banking partner for businesses at the 2018 Banker Middle East Industry Awards by securing the "Best Corporate Bank UAE" and "Best Commercial Bank UAE" awards, a leading platform recognising excellence in the financial services industry across the region. This marks the seventh year that NBF has retained the best commercial bank, and the fourth time in a row it has received the accolade for the best corporate bank.

NBF is increasingly being recognized for its exceptional human resources practices in the region as well, and now fares well with global high performing organizations. NBF has won the following Gulf Employee Experience Awards 2018:

- HR Team of the Year
 - Best Nationalization Program Award
 - Best Employee Experience Award
- The bank was recognised again by Abu Dhabi Securities Exchange (ADX) by being selected as one of the first top five companies for early submission of the consolidated financial statements for Q1 2018, emphasizing the bank's commitment towards transparency and timely reporting to the investor community.



Vince Cook
Chief Executive Officer



Adnan Anwar
Chief Financial Officer