

Management Discussion and Analysis Report

For the year ended 31 December 2018

National Bank of Fujairah PJSC (NBF)

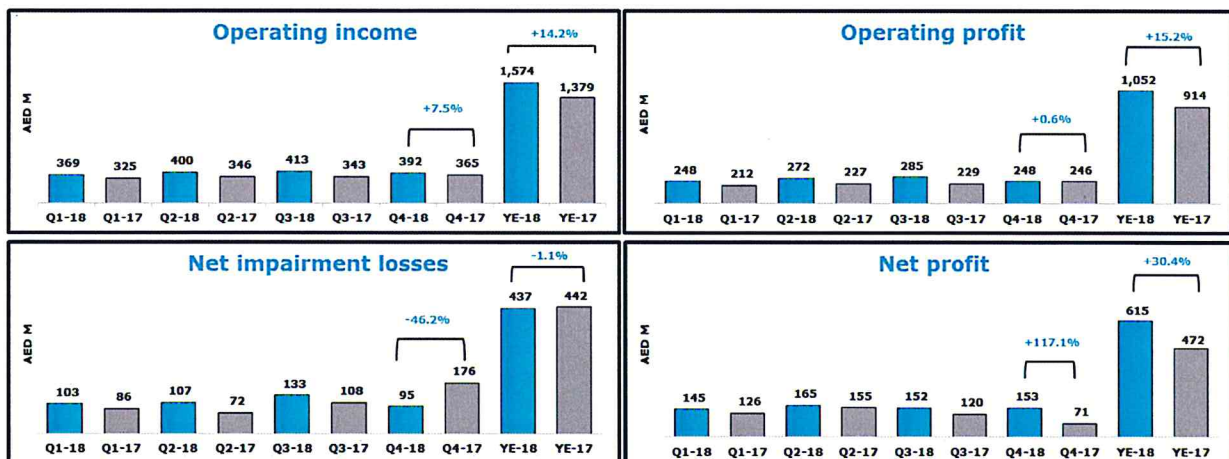
Record net profit of AED 615.3 million, up 30.4% year-on-year exhibiting continued quality business growth and effective asset and liability management

11 February 2019: National Bank of Fujairah PJSC (NBF) is pleased to announce its results for the year ended 31 December 2018.

INCOME STATEMENT HIGHLIGHTS

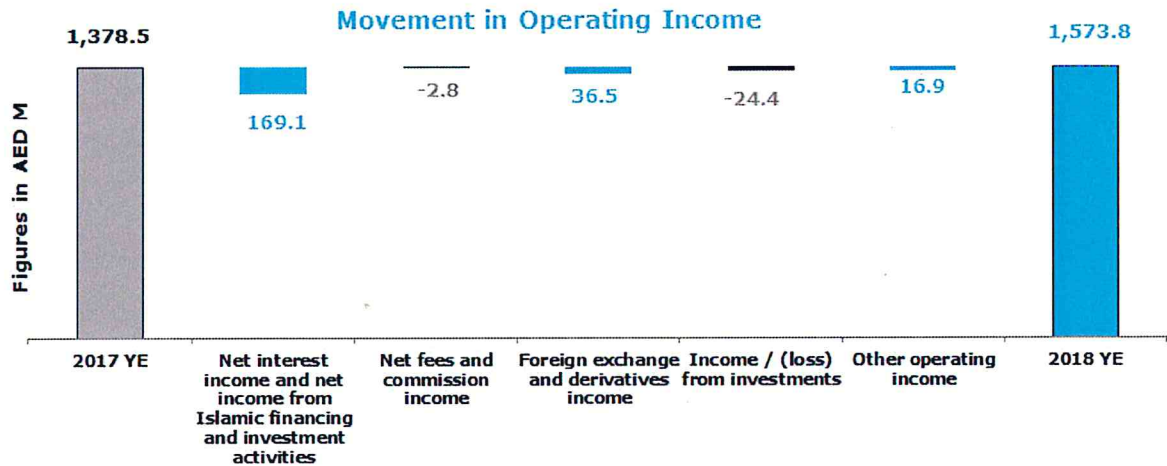
NBF posted its highest ever net profit of AED 615.3 million, a rise of 30.4% over the previous year. This reflects a high level of resilience in the bank's core business and enhanced balance sheet management in a rising interest rate environment.

On the back of a solid operating performance, NBF exceeded the AED 1 billion operating profit mark for the year, up 15.2% over 2017. Compared to the position as at 31 December 2017, customer financing was up 8.9% reflecting the strength of core business growth. The Bank's strong performance was also supported by disciplined cost management.

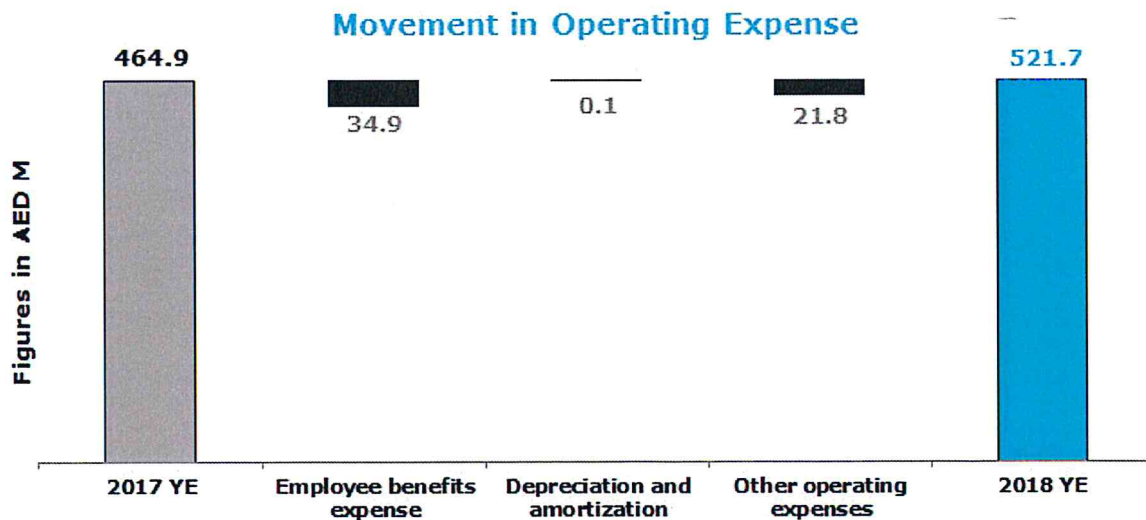


Performance Highlights

- Operating income for the year 2018 stood at AED 1.6 billion registering a growth of 14.2% compared to the previous year. This was achieved by strong core business growth, margin improvement, exceptional treasury activity and management's enhanced focus on return on capital easily overcoming the challenging investment market experienced towards the end of the year.



- Net interest income and net income from Islamic financing and investment activities for the year grew by 18.4% to AED 1.1 billion compared to 2017.
- Marginal reduction in fee and commission income is on account of lower traditional lending and impact of Value Added Tax.
- Foreign exchange and derivatives income experienced a solid growth of 36.2% at AED 137.3 million for the year of 2018 compared with AED 100.8 million in 2017.
- Loss on investments reflects volatility in the debt and capital markets where NBF reduced its equity investments.



- Operating expenses increased by 12.2%, reflecting NBF's disciplined cost management. Prudent investments in our businesses, systems and infrastructure, included a set of digitalisation initiatives to enhance our future offerings. Cost-to-income ratio improved to 33.2% compared to 33.7% last year, providing headroom for further investments in future growth and the bank's technological capabilities.
- NBF has used the strong operating performance to increase its overall coverage levels for troubled accounts. NBF secured prudent net impairment provisions of AED 436.8 million for 2018 compared to AED 441.7 million in 2017, total provision coverage ratio (including credit risk reserve) improved to 102.0% from 89.5% as at 31 December 2017. The NPL ratio improved to 5.1% compared to 5.5% in the corresponding year.

STATEMENT OF FINANCIAL POSITION – HIGHLIGHTS

Figures in AED M

	DEC-18	DEC-17	Change %	DEC-'18	SEP-'18	QoQ
Total Assets	39,783	36,656	8.5%	39,783	38,947	2.1%
Loans and Advances and Islamic Financing Recievables	26,202	24,066	8.9%	26,202	26,611	-1.5%
Customer Deposits and Islamic Customer Deposits	30,472	27,865	9.4%	30,472	29,201	4.4%
Total Shareholders' Equity	5,122	4,891	4.7%	5,122	4,992	2.6%

KEY PERFORMANCE INDICATORS

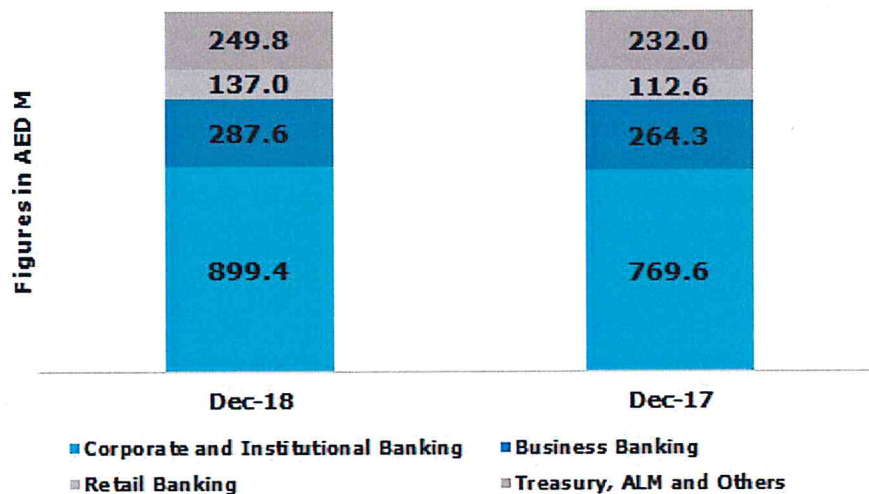
- Strong capital adequacy and lending to stable resources ratios were maintained at 15.2% (Tier 1 ratio of 14.1%) and 86.5% respectively, well ahead of Central Bank's minimum requirements. Further, eligible liquid assets ratio (ELAR) remains strong at 21.9%.
- Following the approval of Annual General Assembly Meeting and our regulatory authorities, NBF has successfully completed the conversion of its Tier 1 capital notes of AED 500 million into ordinary paid-up share capital which has augmented its common equity Tier 1 ratio (CET 1) from 11.9% as at 31 December 2017 to 12.6%.
- Return on average assets improved to 1.6% from 1.3% in 2017; and return on average equity rose to 12.3% from 10.0% in 2017.
- NBF 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, resilience and prudent risk management.
- Taking into account the improved 2018 performance, a distribution of profits of 20% (2017: 15%) has been recommended in the form of cash dividends of 7.5% (2017: 7.5%) and bonus shares of 12.5% (2017: 7.5%) of the paid-up capital. This represents an increase of 60.5% on the dividend of last year, reflecting the Board's confidence in the sustainability of the bank's strong financial position.

OUR SEGMENTED FOCUS

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

The operating income from corporate and institutional banking customers (including business banking) for the year ended 31 December 2018 was AED 1.2 billion, up 14.8% compared to the corresponding year. Operating income from retail banking has grown by 21.8%, while Treasury, ALM & others have increased by 7.7% compared to 31 December 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.

Segment's contribution to Operating Income



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", "Best Commercial Bank UAE" and "Best Treasury Management" 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 and now fares well with global high performing organizations. NBF has won the "Best Emiratisation Initiative of the Year" award from Tawdheef and a number of Gulf Customer Experience Awards for 2018:

- HR Team of the Year
- Best Nationalization Program

- Best Employee Experience
 - Employee Engagement and Happiness
 - Employee Insights and HR Metrics
 - Overall Experience
- NBF Islamic has retained the prestigious accolade of the "Best Islamic Window – UAE" for the third consecutive year at the Islamic Business & Finance Awards 2018. In one of the leading Islamic finance markets, NBF was recognised once again for its premier Islamic banking offerings in the UAE.



Vince Cook
Chief Executive Officer



Adnan Anwar
Chief Financial Officer