

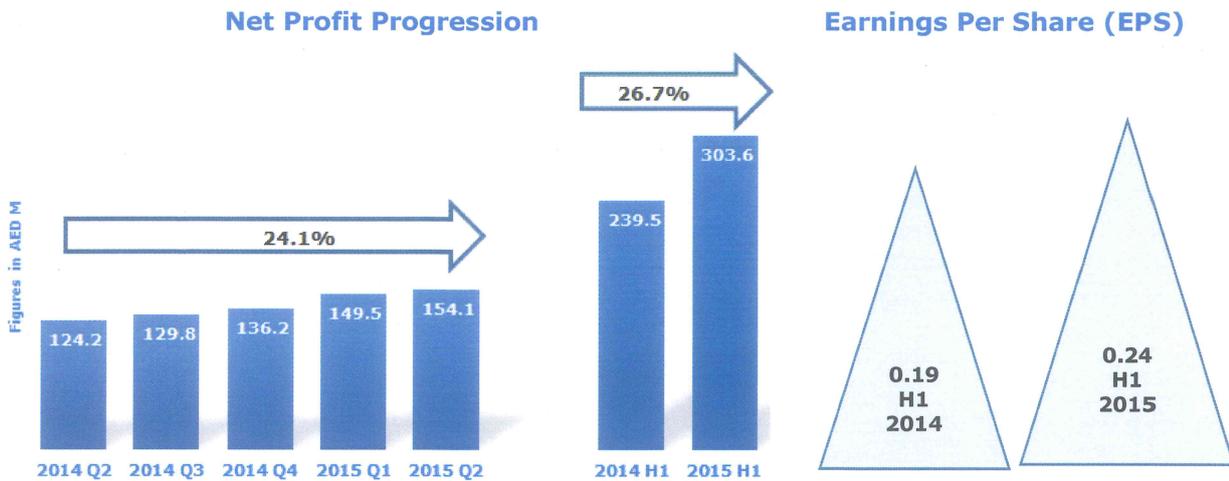
## Management Discussion and Analysis Report

For the six month period ended 30 June 2015

### National Bank of Fujairah PJSC (NBF) reports H1 2015 Net Profit of AED 303.6 M, an increase of 26.7% Y-o-Y

#### INCOME STATEMENT HIGHLIGHTS

NBF posted a record half-yearly net profit of AED 303.6 million for H1 2015. The performance was underpinned by clear focus on ongoing core business growth, improving asset quality, and disciplined cost management. Compared to H1 2014, customer financing was up 24.5%, customer deposits were up 17.0%, and shareholders' equity was up 30.4%. Earnings per share for the first six months of 2015 were AED 0.24, up 28.1% when compared to the same period in 2014.



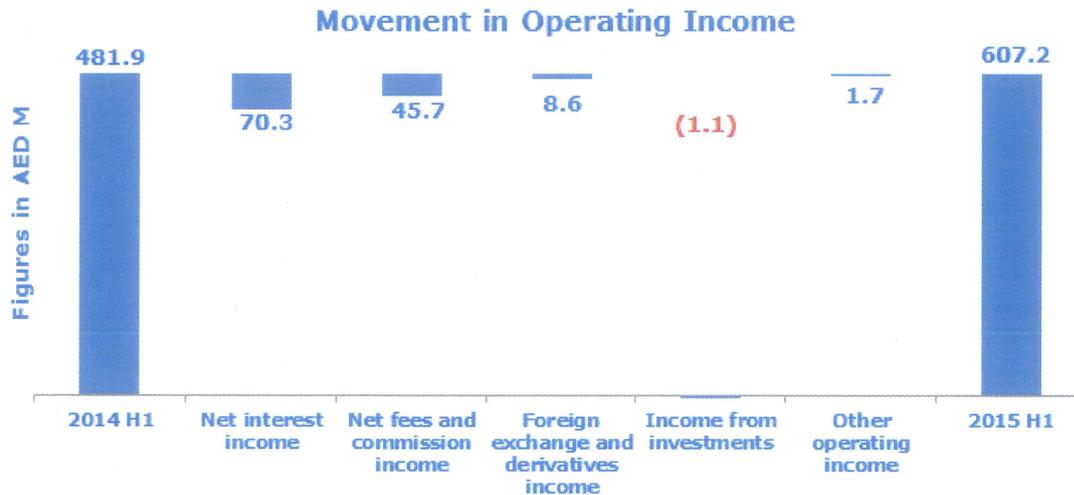
Figures in AED M

	H1 15	H1 14	YoY Change %	Q2'15	Q1'15	Q2'14	QoQ	YoY
Net interest income	391	320	21.9%	200	190	161	5.2%	24.8%
Net Non-interest income	217	162	34.0%	112	105	81	7.1%	37.4%
Operating Income	607	482	26.0%	312	295	242	5.9%	29.0%
Operating Expense	-217	-177	22.2%	-110	-107	-89	3.1%	23.8%
Provisions	-87	-65	33.5%	-48	-39	-29	23.9%	66.2%
Net Income	304	239	26.7%	154	149	124	3.1%	24.1%

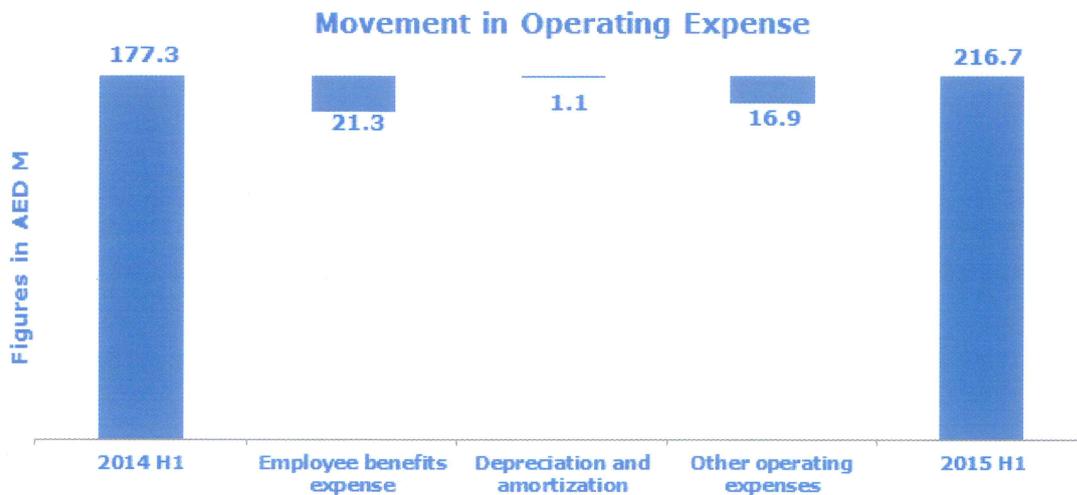
Operating income experienced strong growth at 26.0% and the principal drivers were the following:

- Net interest income grew 21.9% compared to the same period last year, reflecting an increase in business volumes

- Foreign exchange and derivatives income marked a growth of 26.1% compared to the corresponding period of 2014
- Net Fees and Commission income reported 39.2% growth over the corresponding period last year. The growth in this space reaffirms the bank's ongoing focus on the trade finance and advisory business



Operating expenses increased by 22.2% compared to H1 2014, reflecting ongoing investment in NBF's business and service platforms. Cost-to-income ratio improved to 35.7% from 36.8% in the corresponding period of 2014 and 37.8% for full year 2014, which reflects the bank's continued focus on productivity enhancement and disciplined cost management.



Net impairment losses were AED 86.9 million compared to AED 65.1 million in the corresponding period of 2014. The large portion of the charge was represented by the mandatory general provisioning, which was in line with the strong growth in the loan book. The quality of assets continues to improve, as evidenced by the reduction in the NPL ratio from 4.8% to 3.5%.

## STATEMENT OF FINANCIAL POSITION - HIGHLIGHTS

Figures in AED M

	Jun-15	Jun-14	Change %	Jun-15	Mar-15	Dec-14	QoQ	YTD
Total Assets	27,837	23,468	18.6%	27,837	26,527	24,586	4.9%	13.2%
Net loans and advances	18,427	14,801	24.5%	18,427	17,710	16,328	4.0%	12.8%
Customer deposits	19,462	16,635	17.0%	19,462	18,454	17,932	5.5%	8.5%
Total shareholders' equity	4,066	3,117	30.4%	4,066	3,915	3,364	3.9%	20.9%

- NBF's total assets amounted to AED 27.8 billion as of 30<sup>th</sup> June 2015, which represents an increase of 13.2% over 31st Dec 2014
- The bank's net loan book increased by AED 2.1 billion compared to the end of the last year
- Total customer deposits stood at AED 19.5 billion, which funded 69.9% of total assets. The strong progress of NBF Islamic continues and a number of corporate products have been launched following approval from the Central Bank. Islamic deposits grew to around AED 1 billion, while Islamic finance and investments amounted to AED 673 million
- During H1 2015, NBF successfully issued its second tranche of additional Tier 1 capital of AED 500 million, which was oversubscribed with investors ranging from insurance companies to government entities

## KEY PERFORMANCE INDICATORS

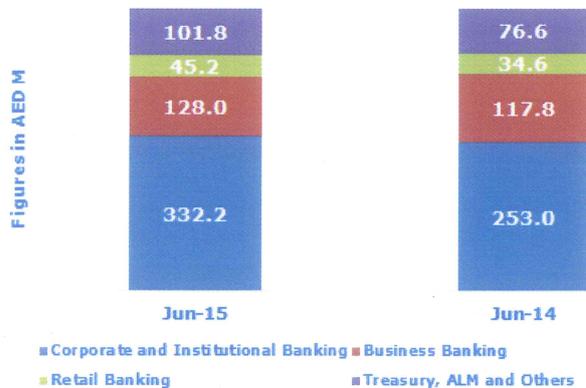
- NBF measures its long term success through its profitability levels, and this focus is evident from the above ratios. The strong financial performance in the first half of 2015 further improved the bank's ROAE, ROAA and Cost to Income ratios
- The bank's continuous focus on credit quality during H1 2015 helped bring the NPL ratio at 3.5% and the coverage ratio improved to 146.6%; among the best at the industry level
- Following the bank's bonus share issue and tier 1 note issuance in H1 2015, the CAR and Tier 1 Ratio improved to 18.4% and 15.7%, respectively, for the period. These continue to be well above the UAE's prescribed minimum threshold for capital adequacy (12%) and for Tier 1 capital (8%)

	Jun-15	Jun-14	Change (bps)	Jun-15	Mar-15	Dec-14	QoQ Change (bps)	YTD Change (bps)
Return on Average Assets	2.3%	2.1%	18	2.3%	2.3%	2.2%	-2	12
Return on Average Equity	16.3%	15.6%	76	16.3%	16.4%	15.8%	-9	53
Cost to Income ratio	35.7%	36.8%	-111	35.7%	36.2%	37.8%	-48	-210
NPL ratio	3.5%	4.8%	-126	3.5%	3.9%	4.4%	-33	-88
Provision Coverage Ratio	146.6%	118.5%	2807	146.6%	133.1%	121.4%	1347	2517
Lending to Stable Resources Ratio	86.9%	80.5%	637	86.9%	88.3%	87.0%	-143	-13
Liquid Assets Ratio	23.9%	26.4%	-245	23.9%	23.6%	24.9%	30	-100
Loans to Deposit Ratio	94.7%	89.0%	571	94.7%	96.0%	91.1%	-129	362
Tier 1 Ratio	15.7%	15.0%	76	15.7%	15.6%	14.6%	12	112
Capital Adequacy Ratio	18.4%	18.1%	37	18.4%	18.4%	17.6%	2	82

- NBF continues to maintain a strong liquidity position. The bank maintains a portfolio of liquid assets of around 24%. Based on new liquidity guidelines from UAE Central Bank, NBF's Eligible Liquid Assets Ratio (ELAR) stands at 16.5% above the requirement of 10%. The bank is also in a comfortable position to abide by Basel III liquidity standard – Liquidity Coverage Ratio (LCR) which will be implemented for eligible banks from January 2016
- The lending to stable resources ratio (LSRR) of 86.9% remained well below the UAE Central Bank ceiling of 100%. The bank holds an investment portfolio aggregating to AED 922.1 million, out of which around 90% is investment grade and above, and 82% is classified as AFS

## OUR SEGMENTED FOCUS

### Segment's contribution to Operating Income



The bank'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 period was AED 460.2 million, up 24.1% over same period last year. Operating income for retail and treasury, ALM & others has grown by 30.7% and 33.0% respectively against same the period last year.

## OPERATIONAL HIGHLIGHTS

- NBF completed its annual ratings review with Moody's and S&P, which reaffirmed the bank's long-term credit rating at Baa1 and BBB+ respectively on the back of ongoing strong financial performance and improving asset quality. Moody's has recently assigned counterparty credit rating of A3 to NBF as part of its new methodology implementation
- NBF continues growing its franchise by diversifying into new business streams. As a natural extension of its precious metals and jewellery business, NBF introduced a diamond financing unit focused on servicing manufacturers and traders of rough and polished diamonds
- As part of ongoing efforts to enhance its operational infrastructure, the bank embarked on a number of small to large scale improvement projects on platforms such as its treasury front-end and CRM systems and remedial management system. Work is also underway to develop the bank's first mobile banking application

## AWARDS AND ACCOLADES

- NBF was once again lauded by the Banker Middle East (BME) for its leadership of the local financial services sector. Voted "Best Commercial Bank UAE" and "Best Corporate Bank UAE" at the 2015 BME Industry Awards, this achievement marked the fourth consecutive year that NBF has retained the best domestic commercial bank award and the first time that it has won the best local corporate bank title. These two awards, also added onto NBF's record haul of five trophies at the BME Product Awards, a sister event held earlier this year: Best Corporate Advisory Service; Best SME Customer Service; Best SME Trade Finance Offering; Best SME Internet Banking Service and Best Treasury Management
- NBF was also recognised by its industry peers for its operational excellence being awarded with the Straight Through Processing (STP) award. Receiving this recognition from its best partner banks, as well as broader industry year after year is testament to the bank's strength as a provider of cash and trade finance solutions in the market
- NBF has been declared the Winner of the Banking Challenge - "HIGHEST AMOUNT RAISED" by the CBC of Abu Dhabi and the Terry Fox Committee, Abu Dhabi



**Vince Cook**  
Chief Executive Officer



**Adnan Anwar**  
Chief Financial Officer