

Management Discussion and Analysis Report

For the year ended 31 December 2016

National Bank of Fujairah PJSC (NBF) operating profit jumps 12.9%, reflecting continued focus on quality core business growth and agile operating platform

25 January 2017: National Bank of Fujairah PJSC (NBF) is pleased to announce its results for the year ended 31 December 2016 in accordance with the approval received from the Central Bank of the UAE.

INCOME STATEMENT HIGHLIGHTS

National Bank of Fujairah PJSC ("NBF") saw a strong operating profit growth of 12.9% to AED 866.0 million for the year ended 31 December 2016 on the back of consistent core business performance. Compared to 2015, customer financing was up by 15.9% and customer deposits and Islamic customer deposits increased by 20.0% reflecting the underlying strength that has been developed to achieve such consistent and balanced growth. The bank's performance reflects the continuing focus on core business growth, proactive asset and liability management and disciplined cost management. The robust operating performance enabled the bank to absorb the impact heightened by credit stress in the market, by making prudent provisions; net impairment charge for the year was AED 405.5 million compared to AED 208.1 million in 2015. NBF secured collective provision of AED 108.97 million, over and above Central Bank's general provision requirement. Net profit was AED 460.4 million compared to AED 558.8 million in 2015, depicting a decline of 17.6% year-on-year on account of elevated level of provisions in view of the credit stress in the market.

Operating Profit Progression



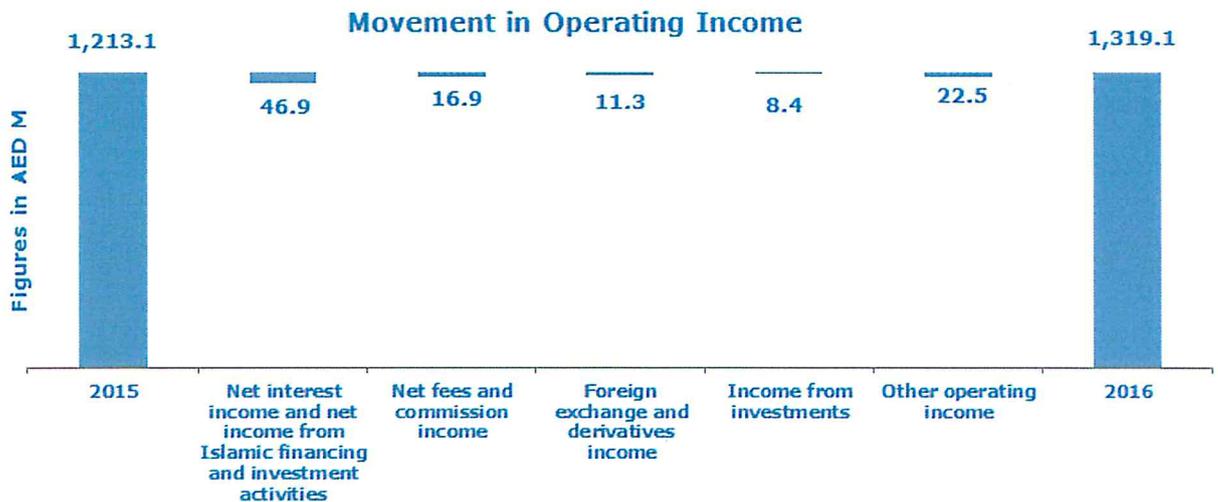
Performance Highlights

Figures in AED M

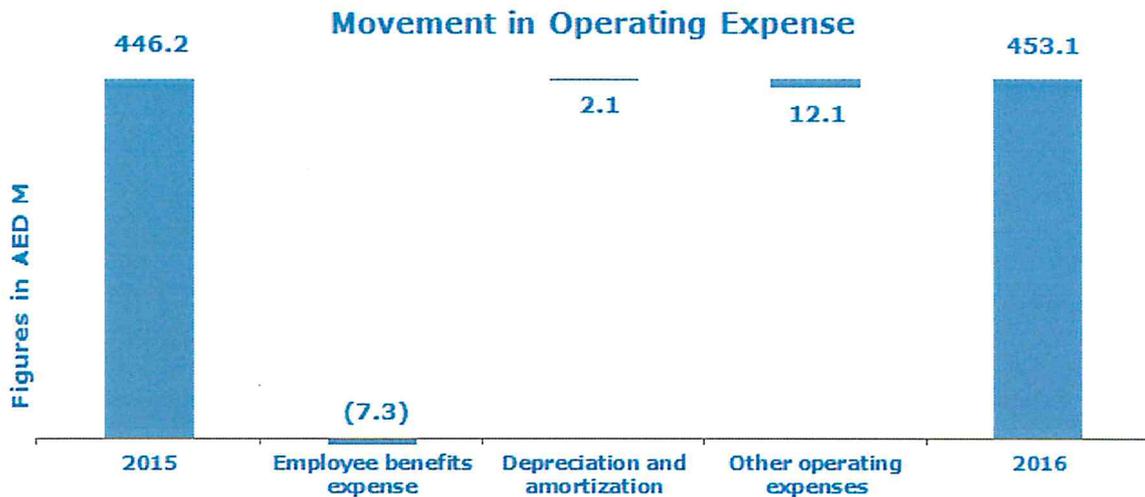
	Dec-16	Dec-15	YoY Change%	Q4'16	Q3'16	Q4'15	QoQ	YoY
Net interest income and net income from Islamic financing and investment activities	848	801	5.9%	218	217	200	0.5%	8.9%
Net non-interest income and net income from Islamic financing and investment activities	471	412	14.4%	126	99	99	27.5%	27.7%
Operating income	1319	1,213	8.7%	344	316	299	9.0%	15.1%
Operating expense	-453	-446	-1.5%	-112	-111	-118	-0.9%	4.9%
Operating profit	866	767	12.9%	232	204	181	13.4%	28.2%
Provisions	-406	-208	-94.9%	-162	-89	-76	-83.3%	-114.0%
Net profit for the period	460	559	-17.6%	70	116	105	-40.0%	-33.8%

Operating income experienced good growth of 8.7% and the principal drivers were:

- Net interest income and net income from Islamic financing and investment activities grew by 5.9% compared to the same period last year, reflecting an increase in business volumes.
- Net non-interest income and net income from Islamic financing and investment activities reported 14.4% growth over the last year. The growth in this space reaffirms the Bank's ongoing focus on the trade finance and advisory business. Foreign exchange and derivatives income marked a robust growth of 12.5% compared to 2015.
- Income from investments was AED 11.1 million, an increase of 311.2% in fair value gain compared to 2015.



- Operating profit was AED 866.0 million compared to AED 766.9 million in 2015; a rise of 12.9%. Fee to income ratio improved to 35.7% compared to 34.0% in 2015.
- Cost-to-income ratio improved to 34.4% against 31 December 2015 ratio of 36.8% on the back of operational and cost efficiencies. Operating expenses increased by 1.5% compared to 2015, reflecting on-going investment in NBF's business balanced with disciplined cost management.



- NBF continued its prudent and transparent approach towards loan loss provisions in response to a noticeable slowdown in the operating environment and rising levels of credit stress experienced during the period. Net impairment losses were AED 405.5 million compared to AED 208.1 million in 2015.

STATEMENT OF FINANCIAL POSITION – HIGHLIGHTS

Figures in AED M

	Dec-16	Dec-15	Change %	Dec-'16	Sep-'16	Dec-'15	QoQ	YTD
Total Assets	35,668	30,033	18.8%	35,668	32,996	30,033	8.1%	18.8%
Loans and Advances and Islamic Financing Receivables	22,818	19,688	15.9%	22,818	21,898	19,688	4.2%	15.9%
Customer Deposits and Islamic Customer Deposits	25,938	21,613	20.0%	25,938	23,117	21,613	12.2%	20.0%
Total Shareholders' Equity	4,579	4,280	7.0%	4,579	4,524	4,280	1.2%	7.0%

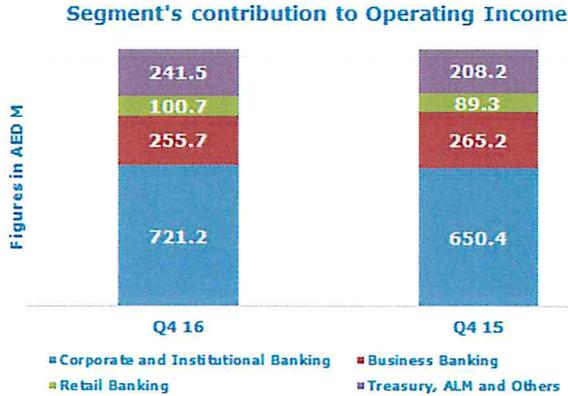
- NBF's total assets amounted to AED 35.7 billion as of 31 December 2016, which represents an increase of 18.8% over 2015 year end.
- Loans and advances and Islamic financing receivables of AED 22.8 billion were up by 15.9% from AED 19.7 billion at 2015 year end.

- Customer deposits and Islamic customer deposits of AED 25.9 billion were up by 20.0% from AED 21.6 billion at 2015 year end, and Customer deposits and Islamic customer deposits funded 72.7% of total assets and loans to deposit ratio was 88.0%.
- Shareholders' equity of AED 4.6 billion was up by 7.0% from 2015 year end.

KEY PERFORMANCE INDICATORS

- At NBF, long term success is measured through our profitability levels, and this focus is evident from our ratios. The strong operating performance amid difficult operating environment helped the Bank to secure prudent provision levels and yet maintain its profitability ratios at competitive levels and further retained and / or improved its ROAE, ROAA and Cost to Income ratios relative to industry levels.
- Following its bonus share issue, the Bank's CAR and Tier 1 ratios are at healthy levels of 17.6% and 15.2%, respectively, for the year. These continue to be well above the UAE's prescribed minimum threshold for capital adequacy (12%) and Tier 1 capital (8%).
- Return on average assets was 1.4% compared to 2.1% in 2015.
- Return on average equity stood at 10.4% compared to 14.6% in 2015.
- The book value per share stood at AED 2.82 (2015: AED 2.77) and earnings per share at AED 0.31 (2015: AED 0.40).
- Net impairment losses were AED 405.5 million compared to AED 208.1 million in 2015. The NPL ratio was 4.95% compared to 4.72% as at 31 December 2015. Specific provision coverage ratio, however, improved to 56.5% from 63.8% in the year end of 2015. Total provision coverage ratio stood at 101.3% as at 31 December 2016 compared to 107.7% as at 31 December 2015.
- Based on new liquidity guidelines from UAE Central Bank, our Eligible Liquid Assets Ratio (ELAR) stands at 23.3% above the requirement of 10%. The Bank is also in a comfortable position to abide by the new Basel III liquidity standard which are calculated and tracked on a daily basis to comply with regulations as they become applicable progressively. At 31 December 2016, the net stable funding ratio and liquidity coverage ratio stood at 103% and 182% respectively.
- The lending to stable resources ratio (LSRR) of 86.1% remained well below the UAE Central Bank ceiling of 100%. The bank holds an investment portfolio aggregating to AED 1.8 billion.

OUR SEGMENTED FOCUS



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 year was AED 976.9 million, up 6.7% over 2015. Operating income for Retail has increased by 12.8% while Treasury, ALM & others have grown by 16.0% against last year.

OPERATIONAL HIGHLIGHTS

- IFRS 9, the new accounting standard on 'Financial Instrument' implementation is in progress and NBF had submitted the impact assessment as required by Central Bank in Q4 2016.
- NBF's 16th branch is now open for business in the Fujairah Free Zone and will play a great role in supporting Fujairah's ongoing growth as a regional oil trading hub.
- Our aim is to build the operating platform for the future to improve efficiency multi-fold and reduce cost per transaction three to five times, innovate and participate in the field of digital and data disruption and understand the impact of new regulatory changes on businesses, customers and products. In this regard, the bank embarked upon the business process management project in Q4 2016.

AWARDS AND ACCOLADES

NBF's year-end results underscore efforts to deliver real value to customers and support them as a consistent, reliable and transparent partner – a focus that has won accolades for us throughout the year. Notable firsts include;

- Our maiden award for NBF Islamic, "Best New Islamic Window – UAE" was attained at the Islamic Business & Finance Awards.
- NBF has been awarded the Bankers' Choice Awards 2016 by The Asian Banker recently for its long outstanding culture of service excellence and client partnership.
- NBF also won the "Best Employer Brand on LinkedIn" award, the first accolade in the social media arena, at the 2nd Annual Talent Awards. This has helped position NBF as an Employer of Choice and NBF's LinkedIn community ranks highest in the Talent Brand Index surpassing bigger peers.

Taking into account the 2016 performance and the current market conditions, the Board of Directors, has recommended a distribution of profits of 15.0% (2015: 15.0%) in the form of cash dividends of 7.5% (2015: 7.5%) and bonus shares of 7.5% (2015: 7.5%) of paid-up capital.



Vince Cook
Chief Executive Officer



Adnan Anwar
Chief Financial Officer