

## Management Discussion and Analysis Report National Bank of Fujairah PJSC For the year ended 31 December 2020

**NBF 2020 results show high level of resilience despite the significant impact of COVID19 pandemic and few exceptional group exposures bringing results to a net loss of AED 475.3 million**

*Strong capital position and ample liquidity coupled with effective cost management and prudent provisioning place the bank well for a rapid recovery*

**28 January 2021:** NBF announces its results for the year ended 31 December 2020.

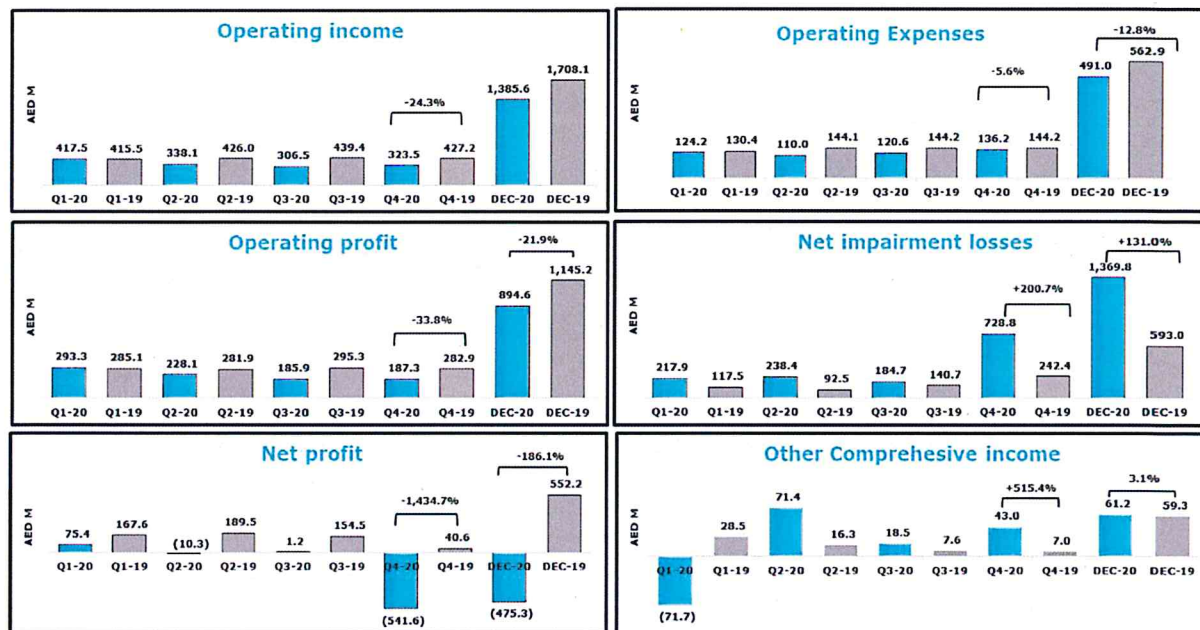
### Overview of Results and Operational Performance for the year ended 31 December 2020

NBF achieved an operating profit of AED 894.6 million for the year ended 31 December 2020 compared to AED 1,145.2 million in the corresponding year.

NBF maintained its policy of prudent and transparent recognition of problem accounts and has also taken the opportunity to enhance net impairment losses in response to the potential impact of COVID-19 and the deterioration seen in a few exceptional group exposures to support a meaningful recovery in 2021. NBF secured net impairment provisions of AED 1,369.8 million for the year compared to AED 593.0 million in 2019. This provision charge for the year 2020 includes changes to the IFRS 9 model and macro-economic parameters in view of the COVID-19 aggregating to AED 247.7 million. During the year ended 31 December 2020, the bank's impairment reserve reduced by AED 79.6 million to AED 283.5 million from AED 363.1 million at 2019 year-end as specific situations have reached a stage where they are recognized through the profit and loss account. Total provision coverage ratio (including impairment reserves) stood at 91.8% compared to 107.3% as at 31 December 2019. The NPL ratio stood at 10.1% compared to 5.4% as at 31 December 2019. Excluding the few exceptional group exposures, the NPL ratio would reduce to 7.3%.

NBF recorded a net loss of AED 475.3 million for the year 2020 as compared to AED 552.2 million profit for year 2019 as a result of the substantial increase in impairment provisions and lower operating profit, hence the Board of Directors does not propose a distribution of dividends to shareholders this year.

## Summary of profit and loss for the year ended 31 December 2020

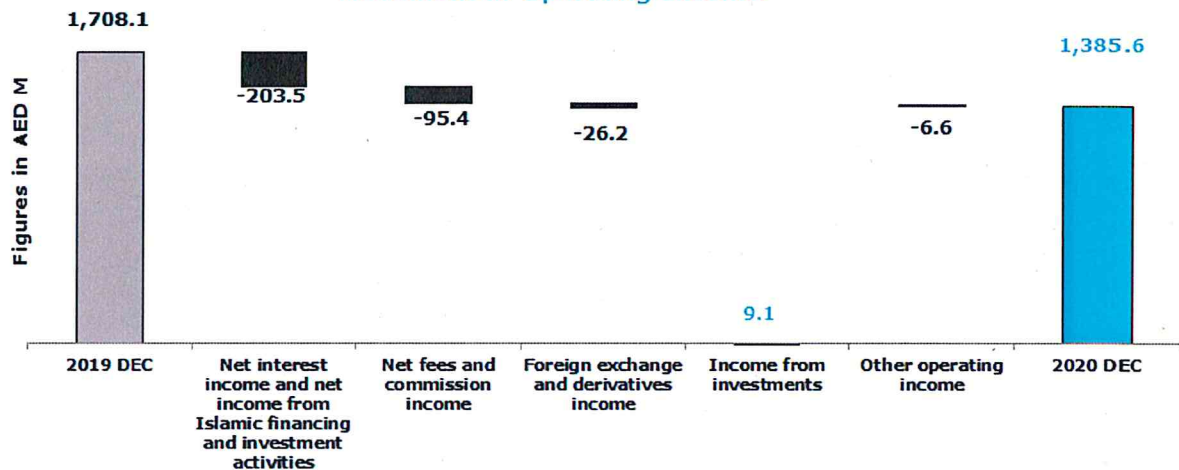


- Operating income stood at AED 1.4 billion down 18.9% compared to AED 1.7 billion in the corresponding year, reflecting exceptionally challenging operating conditions and economic climate. Margin compression, recessionary trends across global economies and depressed economic activity with the persistence of COVID-19 caused the drop in income as our short term trade business saw substantial repayments. This was mitigated by management's efforts to protect the core business, adapting its investment strategy and achieving operating efficiencies from its digitalization efforts.

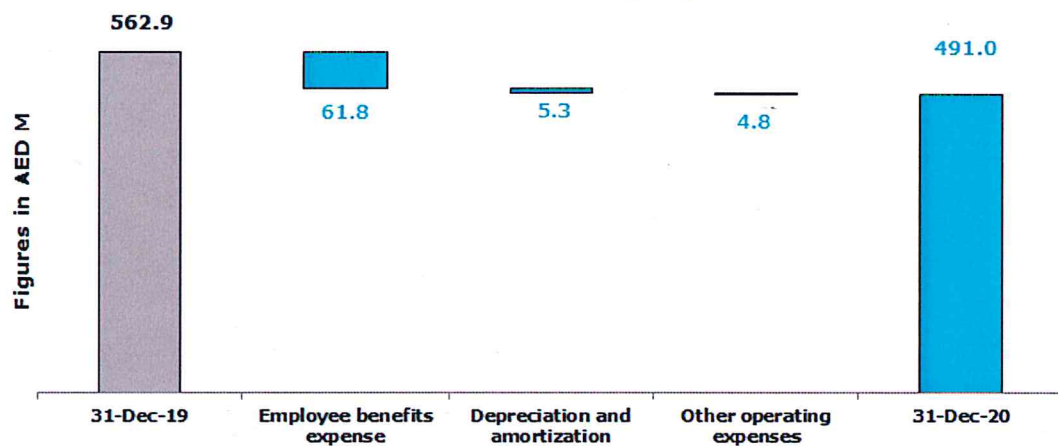
Net interest income and net income from Islamic financing and investment activities of AED 948.9 million was recorded whilst AED 291.7 million of net fees and commission and other income was recorded compared to AED 1,152.4 million and AED 393.7 million respectively in the corresponding year. Foreign exchange and derivatives income reached AED 125.0 million compared to AED 151.2 million in the corresponding year. Income from investments and Islamic instruments marked a significant growth of 84.1% reaching AED 20.0 million compared to AED 10.8 million in 2019. Unrealised gain on FVOCI investments stood at AED 92.6 million.



### Movement in Operating Income



### Movement in Operating Expense



- Operating expenses reduced by 12.8% to AED 491.0 million compared to AED 562.9 million in the corresponding year of 2019, reflecting the measures adopted in line with the changing market conditions. The cost-to-income ratio stood at 35.4% compared to 33.0% in the corresponding year reflecting lower operating income.

### Summary of financial position as at 31 December 2020

Figures in AED M

	DEC-20	DEC-19	Change %	DEC-'20	SEP-'20	QoQ
Total Assets	39,872	42,805	-6.9%	39,872	41,777	-4.6%
Loans and Advances and Islamic Financing Recievables	24,844	27,095	-8.3%	24,844	25,370	-2.1%
Customer Deposits and Islamic Customer Deposits	29,766	31,950	-6.8%	29,766	31,204	-4.6%
Investments and Islamic instruments	5,187	3,367	54.0%	5,187	4,611	12.5%
Total Equity	5,672	6,351	-10.7%	5,672	6,210	-8.7%

- Loans and advances and Islamic financing receivables stood at AED 24.8 billion compared to AED 27.1 billion at 2019 year-end. High quality liquid assets stood at AED 7.1 billion compared to AED 7.9 billion at 2019 year-end. This reflects on-going prudent balance sheet and liquidity management actions.
- Customer deposits and Islamic customer deposits stood at AED 29.8 billion compared to AED 31.9 billion at 2019 year-end. Current and Saving Accounts (CASA) deposits increased by AED 1.6 billion from 2019 year-end, a 16.9% increase to AED 11.3 billion as at 2020 year-end. CASA deposits improved to 38.0% of total customer deposits compared to 30.3% as at 31 December 2019.
- Investments and Islamic instruments were up by 54.0% from AED 3.4 billion at 2019 year-end to AED 5.2 billion as liquidity was directed towards the high quality investment book to mitigate the impact of the subdued loan growth in 2020. Fair value reserve increased by AED 61.2 million over the corresponding year on the back of improvement in investments designated as fair value through other comprehensive income (FVOCI).
- Total assets reached AED 39.9 billion (AED 42.8 billion at 2019 year-end).
- Total equity stood at AED 5.7 billion compared to AED 6.4 billion at 2019 year-end.

#### Summary of the cash flows and capital expenditure during the year ended 31 December 2020

For the year ended 31 December 2020, the Bank's cash and cash equivalents increased by AED 2.3 billion compared to 2019. This reflects the bank's prudent liquidity and credit risk management. The increase was primarily due to the cash flow increase in due from Central bank of AED 5.2 billion which was partially offset by a reduction in customer deposits of AED 3.7 billion.

During the year 2020, NBF had incurred AED 55.0 million on capital expenditures relating to the additions of property and equipment and capital work-in-progress compared to AED 93.7 million in 2019.

#### Key Performance Indicators

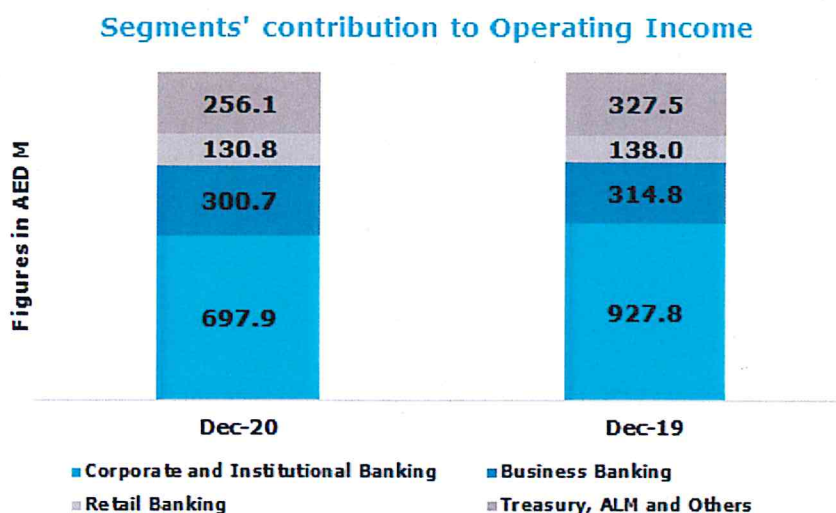
- Sufficient liquidity was maintained with lending to stable resources ratios at 82.1% (2019: 85.9%) and eligible liquid assets ratio (ELAR) at 20.8% (2019: 21.7%), well ahead of all CBUAE minimum requirements.
- The capital adequacy ratio is very strong and stood at recent high of 19.2% (Tier 1 ratio of 18.1% and CET 1 ratio of 14.0%) compared to 17.8% (Tier 1 ratio of 16.6% and CET 1 ratio of 12.9%) at 2019 year-end, significantly ahead of regulatory requirements.
- Return on average assets was -1.1% compared to 1.3% in 2019 and return on average equity was -7.9% compared to 9.6% for 2019.



## 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 2020 was AED 998.6 million, a decline of 19.6% compared to 2019. Operating income from Retail Banking declined by 5.1%, and Treasury, ALM & others have decreased by 21.8% compared to 2019.



## Expectation regarding the economy, sector and its impact on the Bank

2020 witnessed unprecedented disruption caused by COVID19 pandemic, adding to the challenges already being faced by the global economy with supply-chain disruptions, stocks and commodity price volatility, interest rate cuts and consequent credit stress all creating extreme negative pressures on the business environment. The UAE banking industry continues to face pronounced risks, including asset quality concerns, rising cost of risk, slowdown in economic activity and margin pressures. With the availability of vaccine and reform towards COVID-19 globally, we are optimistic that as the economy begins to emerge from the effects of the pandemic, there will be new business opportunities.

Against this current uncertain environment, NBF has been functioning without a break to support its customers through various measures and remains responsive to their ever-changing needs. Not only was the bank an early user of the UAE government's initial support measures, we have also adopted more accommodating policies where appropriate, above and beyond such schemes, to assist and provide relief to its eligible customers, forgoing short term profit for the longer term benefit of the economy.

NBF has been closely monitoring the situation and has successfully taken a number of measures ranging from reduced branch working hours to remote working and the use of digital solutions to ensure continuity of customer services and precautionary measures to ensure health and safety of all stakeholders.

NBF has been proactively managing its liquidity and further strengthened its position to navigate through these uncertain environment with confidence. As at 31 December 2020, NBF's advances to deposits ratio stood at 83.5%, NSFR at 106.6% and LCR at 366.5%. NBF has also considered the standards and joint guidance with respect to TESS and the Treatment of IFRS 9 Expected Credit Loss Provisions in the UAE in the context of the COVID-19 crisis issued by the UAE Central Bank during March and April 2020 respectively.

NBF is confident that the fundamental strength of Bank's franchise remains intact despite the immediate challenges to profitability. The Bank's strong capital and liquidity position enables it to proactively deal with the situation and will allow it to emerge stronger than ever. The Bank appreciates the UAE government's timely support measures aimed at the protection, safety and sustenance of the country's people and institutions and likewise is proud of NBF's efforts to support its impacted customers through appropriate relief measures whilst taking care of the well-being and security of its staff members.

NBF's key shareholders include the Government of Fujairah, Easa Saleh Al Gurg LLC and Investment Corporation of Dubai. Rated 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 negative outlook and has a branch network of 15 (of which 1 is an electronic banking service unit) across the UAE.

## Awards and Accolades

- For the third year in a row, NBF was awarded “The Dubai Chamber CSR Label 2019”, in recognition of our outstanding CSR strategy. This award acknowledges our efforts in taking practical measures to ensure that CSR is an integral part of our operations.
- “Best SME Bank” – At the MEA Finance Awards 2020.

W. C. C.

**Vince Cook**  
**Chief Executive Officer**

**Adnan Anwar**  
**Deputy Chief Executive Officer**