

Management Discussion and Analysis Report

National Bank of Fujairah PJSC

For the three month period ended 31 March 2021

NBF bounced back to profitability with a first quarter net profit of AED 42.0 million and operating profit growth of 32.5% quarter-on-quarter

The bank achieved its best operating and net performance after the emergence of COVID-19 pandemic benefitting from its robust liquidity and capital position

28 April 2021: NBF announces its results for the three month period ended 31 March 2021.

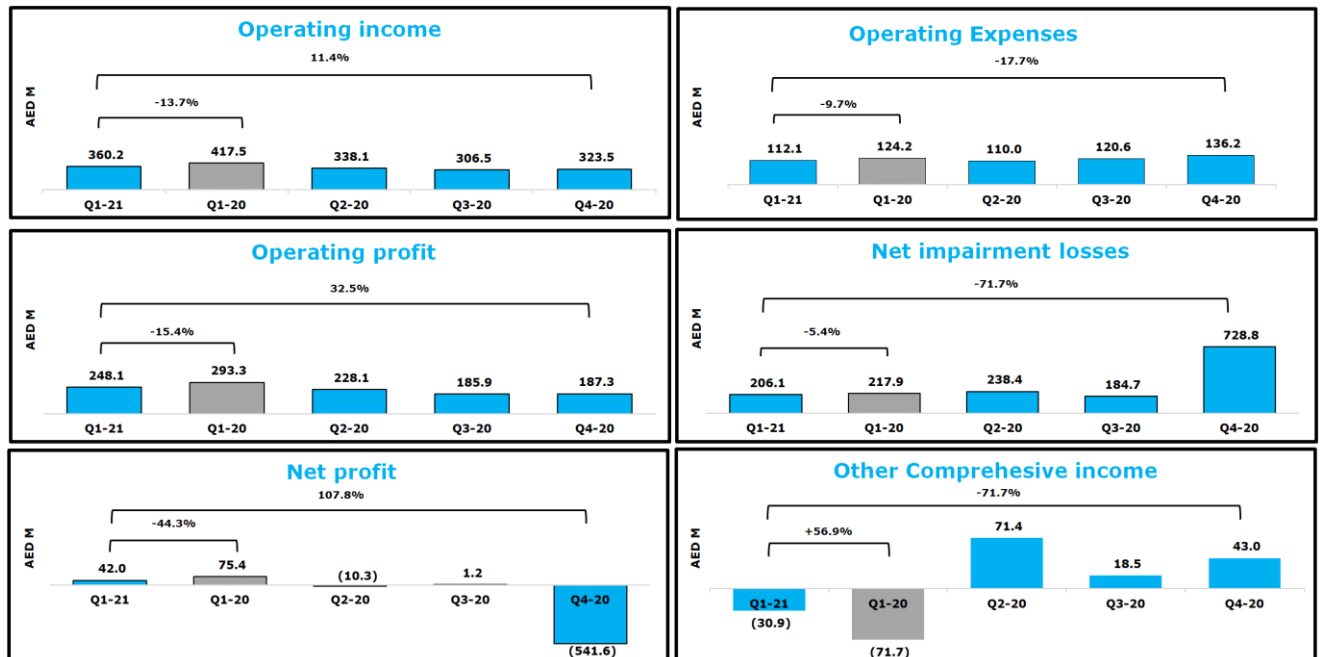
Overview of Results and Operational Performance for the three month period ended 31 March 2021

NBF achieved an operating profit of AED 248.1 million for the three month period with a growth of 32.5% quarter-on-quarter whilst 15.4% down compared to AED 293.3 million in the corresponding period of 2020.

NBF maintained its policy of prudent and transparent recognition of problem accounts. NBF secured net impairment provisions of AED 206.1 million for the three month period ended 31 March 2021, down 5.4% compared to AED 217.9 million in the corresponding period of 2020. During the period, the bank's impairment reserve stood at the 2020 year-end level at AED 283.3 million. Total provision coverage ratio (including impairment reserves) stood at 87.7% compared to 91.8% as at 31 December 2020. The NPL ratio remained at the 2020 year-end level of 10.1%. Excluding the few exceptional group exposures, the NPL ratio would reduce to 6.8% (31 December 2020: 7.3%).

NBF recorded a net profit of AED 42.0 million for the three month period ended 31 March 2021, up 107.8% compared to Q4 2020 and down 44.3% compared to AED 75.4 million in the corresponding period of 2020, despite the challenging credit conditions and the third wave of the COVID-19 pandemic.

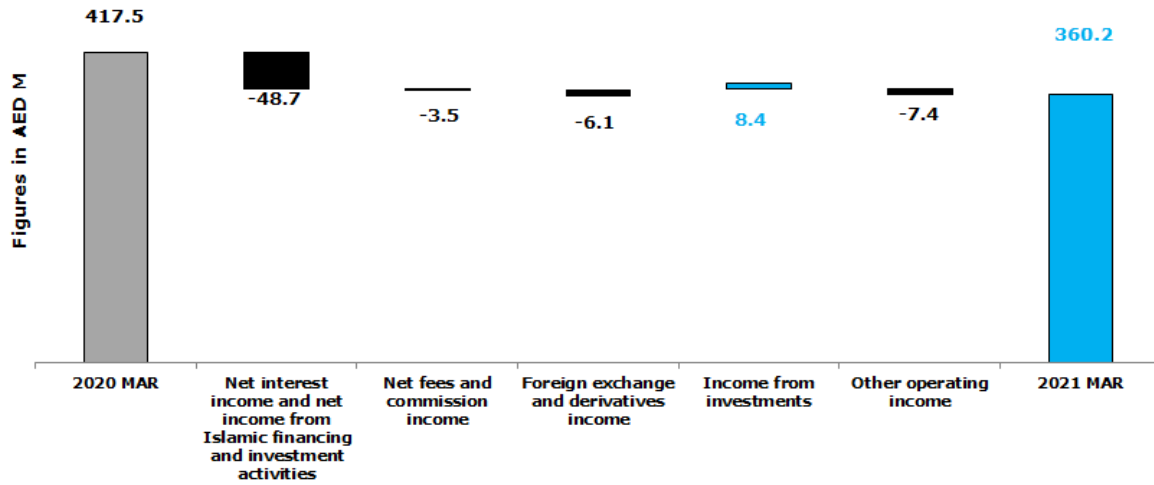
Summary of profit and loss for the three month period ended 31 March 2021



Operating income stood at AED 360.2 million, up 11.4% compared to Q4 2020 and down 13.7% compared to AED 417.5 million in the corresponding period of 2020 reflecting the testing operating conditions presented by the COVID-19 pandemic from Q2 2020. Lower interest rates and margins coupled with subdued economic activity affected the drop in income. This was offset by management's focus on core business, lowering cost of funds, adjusting its investment strategy and achieving operating efficiencies from its automation and digital endeavors.

Net interest income and net income from Islamic financing and investment activities, up 0.3% and net fees, commission and other income, up 12.9% compared to Q4 2020, standing at AED 227.6 million and AED 78.4 million respectively compared to AED 276.3 million and AED 89.3 million in the corresponding period of 2020. Foreign exchange and derivatives income achieved a good growth of 19.2% quarter-on-quarter reaching AED 30.9 million compared to AED 37.0 million in the corresponding period of 2020. Income from investments and Islamic instruments marked a substantial improvement to AED 23.4 million during the three month period ended 31 March 2021 compared to the corresponding period of 2020 and Q4 2020. Unrealised gain on fair value through other comprehensive income (FVOCI) investments stood at AED 61.6 million.

Movement in Operating Income



Movement in Operating Expense



Operating expenses reduced by 9.7% to AED 112.1 million compared to AED 124.2 million in the corresponding period of 2020 and by 17.7% compared to Q4 2020, demonstrating the measures adopted in line with the changing market conditions with the key focus on extraordinary customer service through digital adoption and innovation. Cost-to-income ratio stood at 31.1% compared to 29.8% in the corresponding period of 2020 due to lower operating income.

Summary of financial position as at 31 March 2021

Figures in AED M

	Mar-2021	DEC-2020	Change %	Mar-21	MAR-20	QoQ
Total Assets	39,134	39,872	-1.8%	39,134	43,281	-9.6%
Loans and Advances and Islamic Financing Recievables	25,030	24,844	0.7%	25,030	27,181	-7.9%
Customer Deposits and Islamic Customer Deposits	28,321	29,766	-4.9%	28,321	32,030	-11.6%
Investments and Islamic instruments	5,005	5,187	-3.5%	5,005	2,974	68.3%
Total Equity	5,685	5,672	0.2%	5,685	6,170	-7.9%

- Loans and advances and Islamic financing receivables rose marginally by 0.7% to reach AED 25.0 billion compared to AED 24.8 billion at 2020 year-end and AED 27.2 billion as at 31 March 2020.
- Customer deposits and Islamic customer deposits stood at AED 28.3 billion compared to AED 29.8 billion at 2020 year-end and AED 32.0 billion as at 31 March 2020. CASA deposits improved to 39.8% of total customer deposits compared to 38.0% as at 31 December 2020 and 31.8% as at 31 March 2020. Current and Saving Accounts (CASA) deposits stood at the 2020 year-end level of AED 11.3 billion cushioning the impact from the lower interest rates.
- Investments and Islamic instruments stood at AED 5.0 billion compared to AED 5.2 billion at 2020 year-end and AED 3.0 billion as at 31 March 2020 evincing that liquidity was directed towards the high quality investment book to protect shareholder value.
- Total assets reached AED 39.1 billion (AED 39.9 billion at 2020 year-end).
- Total equity stood at the same level as 2020 year-end at AED 5.7 billion.

Summary of the cash flows and capital expenditure during the three month period ended 31 March 2021

For the three month period ended 31 March 2021, the Bank's cash and cash equivalents increased by AED 1.8 billion compared to March 2020. This reflects the bank's prudent liquidity and credit risk management. The increase was primarily due to the cash flow increase in due from banks and financial institutions of AED 1.2 billion.

Key Performance Indicators

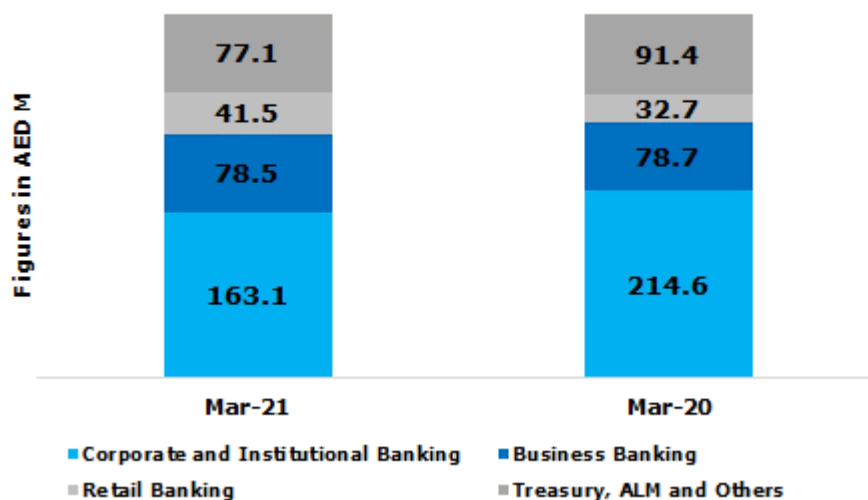
- Ample liquidity was maintained with lending to stable resources ratios at 82.8% (2020: 82.1%) and eligible liquid assets ratio (ELAR) at 18.3% (2020: 20.8%), well ahead of all CBUAE minimum requirements.
- The capital adequacy ratio (CAR) is being kept at a recent high to underpin the bank's ability to ride out any challenges arising out of the evolving operating landscape. CAR stood at 19.6% (Tier 1 ratio of 18.5% and CET 1 ratio of 14.3%) compared to 19.2% (Tier 1 ratio of 18.1% and CET 1 ratio of 14.0%) at 2020 year-end.
- Return on average assets was 0.4% compared to 0.7% for the corresponding period in 2020.
- Return on average equity was 3.0% compared to 4.8% for the corresponding period in 2020.

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 three month ended 31 March 2021 was AED 241.6 million, a decline of 17.6% compared to the corresponding period of 2020. Operating income from Retail Banking increased by 26.8%, and Treasury, ALM & others have decreased by 15.6% compared to the corresponding period in 2020.

Segments' contribution to Operating Income



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

The COVID-19 pandemic continues to have a profound impact globally causing disruption to business and economic activities. The UAE Central bank, monetary authorities and governments across the world have announced various support measures and deployed multiple vaccines to counter the possible adverse implications.

NBF has been closely monitoring the situation and has successfully implemented remote working and 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 uncertainty and complexity with poise. As at 31 March 2021, NBF's NSFR stood at 105.1% (2020: 106.6%) and LCR stood at 296.9% (2020: 366.5%).

NBF is confident that the fundamental strength of Bank's franchise remains strong 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.

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 with a negative outlook; and BBB / A-2 by Standard & Poor's with a stable outlook, the bank is listed on the Abu Dhabi Securities Exchange under the symbol "NBF". It has a branch network of 15 (of which 1 is an electronic banking service unit) across the UAE.

Awards and Accolades

- For the fourth year in a row, NBF was awarded "The Dubai Chamber CSR Label 2020", 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.

Vince Cook
Chief Executive Officer

Adnan Anwar
Deputy Chief Executive Officer