

Management Discussion and Analysis Report

National Bank of Fujairah PJSC

For the six month period ended 30 June 2021

NBF posted an encouraging set of half year results bouncing back with a net profit growth of 17.1%

The franchise continued with its progressive trajectory on the back of robust capital base and liquidity in line with the government measures to revive key sectors of the UAE economy

18 July 2021: NBF announces its results for the six month period ended 30 June 2021.

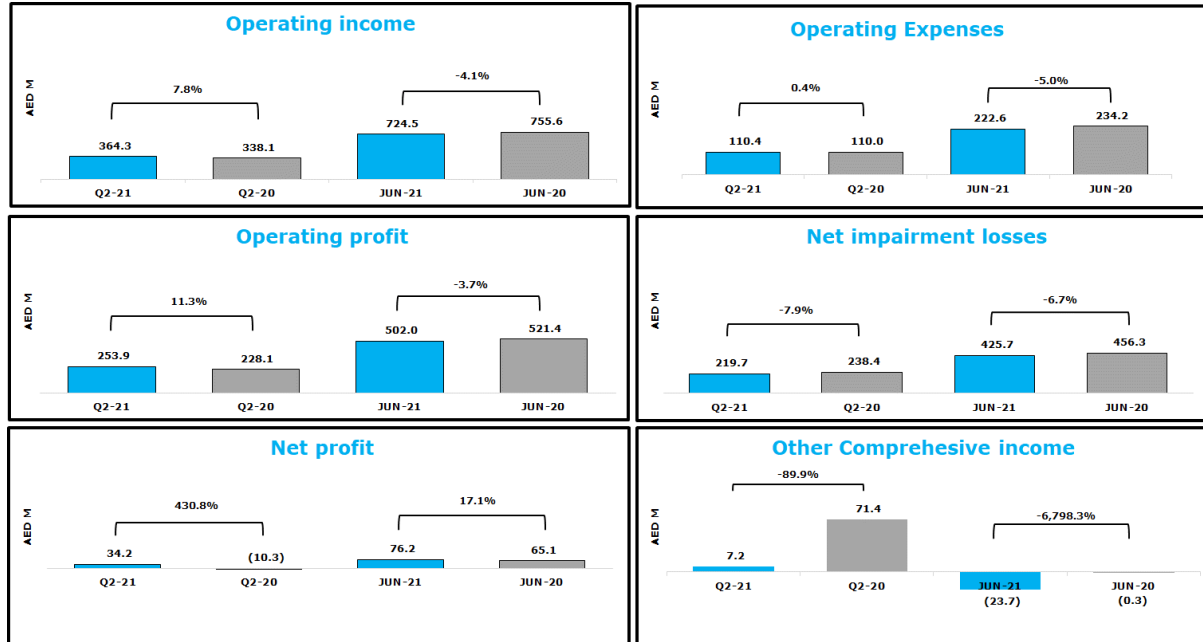
Overview of Results and Operational Performance for the six month period ended 30 June 2021

NBF posted a net profit of AED 76.2 million for the six month period ended 30 June 2021, an increase of 17.1% over the corresponding period, which exhibits its resilient business strategy. The net profit was up 430.8% for the three month period ended 30 June 2021 compared to the corresponding period.

NBF achieved an operating profit growth of 11.3% for the three month period ended 30 June 2021 over the corresponding period; and 2.3% compared to Q1 2021, demonstrating the on-going recovery phase. Operating profit stood at AED 502.0 million for the six month period ended 30 June 2021 compared to AED 521.4 million in the corresponding period of 2020.

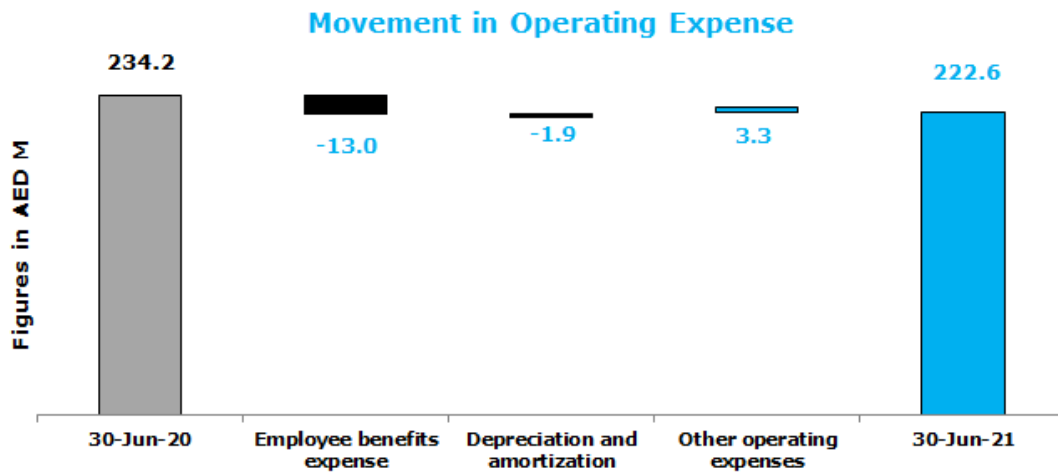
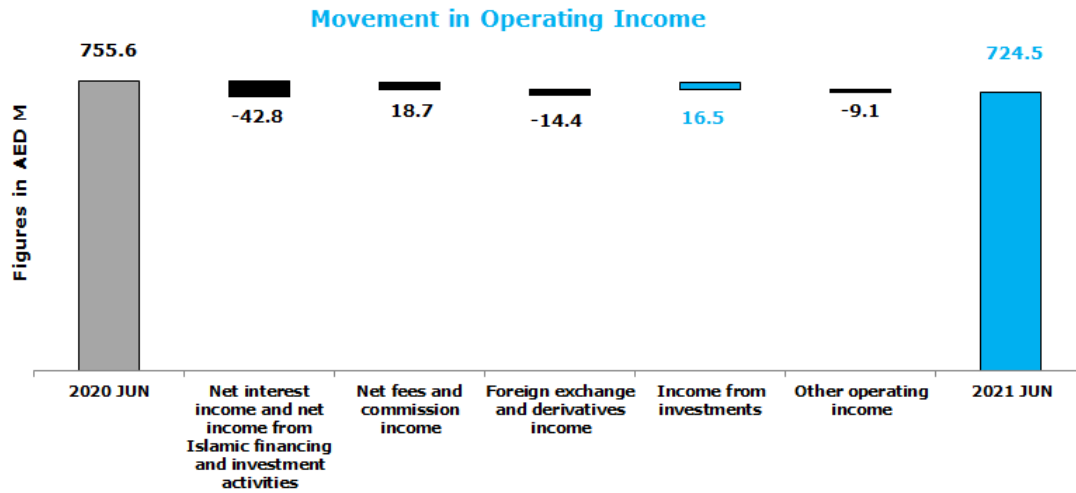
NBF maintained its policy of prudent and transparent recognition of problem accounts. NBF secured net impairment provisions of AED 425.7 million for the six month period ended 30 June 2021, down 6.7% compared to AED 456.3 million in the corresponding period. During the period, the bank's impairment reserve reduced to AED 270.2 million compared to AED 283.5 million as at 31 December 2020. Total provision coverage ratio (including impairment reserves) stood at 93.8% compared to 91.8% as at 31 December 2020. The NPL ratio stood at 10.0% compared to 10.1% as at 31 December 2020. Excluding the few exceptional group exposures, the NPL ratio would reduce to 6.8% (31 December 2020: 7.3%).

Summary of profit and loss for the six month period ended 30 June 2021



Operating income growth of 7.8% was recorded for the three month period ended 30 June 2021 over the corresponding period; and 1.1% compared to Q1 2021. Operating income stood at AED 724.5 million for the six month period ended 30 June 2021 compared to AED 755.6 million in the corresponding period, reflecting gradual recovery from the challenging operating environment presented by the COVID-19 pandemic.

Net interest income and net income from Islamic financing and investment activities grew 2.5% in the three month period ended 30 June 2021 over the corresponding period; and 6.1% compared to Q1 2021. Net interest income and net income from Islamic financing and investment activities stood at AED 469.1 million for the six month period ended 30 June 2021 compared to AED 511.9 million in the corresponding period. Net fees, commission and other income rose 6.1% to AED 166.2 million for the six month period ended 30 June 2021 compared to AED 156.7 million in the corresponding period. It was up 30.4% for the three month period ended 30 June 2021 compared to the corresponding period; and up 12.1% compared to Q1 2021. Foreign exchange and derivatives income reached AED 54.6 million for the six month period ended 30 June 2021 compared to AED 68.9 million in the corresponding period. Income from investments and Islamic instruments marked a substantial improvement to AED 34.6 million during the six month period ended 30 June 2021 compared to the corresponding period. Unrealised gain on fair value through other comprehensive income (FVOCI) investments stood at AED 68.9 million.



Operating expenses reduced by 5.0% to AED 222.6 million compared to AED 234.2 million in the corresponding period of 2020, demonstrating the measures adopted in line with the changing market conditions with the key focus on exceptional customer service through digital adoption and innovation. Cost-to-income ratio marginally reduced to 30.7% compared to 31.0% in the corresponding period of 2020 reflecting the lower operating income.

Summary of financial position as at 30 June 2021

Figures in AED M

	Jun-2021	DEC-2020	Change %	Jun-21	JUN-20	Change %
Total Assets	41,055	39,872	3.0%	41,055	44,483	-7.7%
Loans and Advances and Islamic Financing Recievables	25,276	24,844	1.7%	25,276	26,439	-4.4%
Customer Deposits and Islamic Customer Deposits	29,830	29,766	0.2%	29,830	32,926	-9.4%
Investments and Islamic instruments	4,861	5,187	-6.3%	4,861	3,980	22.1%
Total Equity	5,688	5,672	0.3%	5,688	6,190	-8.1%

- Loans and advances and Islamic financing receivables rose by 1.7% to reach AED 25.3 billion compared to AED 24.8 billion at 2020 year-end and AED 26.4 billion as at 30 June 2020.
- Customer deposits and Islamic customer deposits stood at the 2020 year-end level of AED 29.8 billion compared to AED 32.9 billion as at 30 June 2020. CASA deposits improved to 40.6% of total customer deposits compared to 38.0% as at 31 December 2020 and 31.2% as at 30 June 2020. Current and Saving Accounts (CASA) deposits increased by AED 805.2 million to reach AED 12.1 billion compared to AED 11.3 billion as at 31 December 2020, cushioning the impact from the lower interest rates.
- Investments and Islamic instruments stood at AED 4.9 billion compared to AED 5.2 billion at 2020 year-end and AED 4.0 billion as at 30 June 2020 evincing that deployment of a portion of excess liquidity towards the high quality investment book to protect shareholder value
- Total assets rose by 3.0% to reach AED 41.1 billion compared to AED 39.9 billion at 2020 year-end and AED 44.5 billion as at 30 June 2020.
- Total equity stood at the 2020 year-end level of AED 5.7 billion compared to AED 6.2 billion as at 30 June 2020.

Summary of the cash flows and capital expenditure during the six month period ended 30 June 2021

For the six month period ended 30 June 2021, the Bank's cash and cash equivalents reduced by AED 0.51 billion compared to June 2020. This reflects the bank's prudent liquidity and credit risk management.

Key Performance Indicators

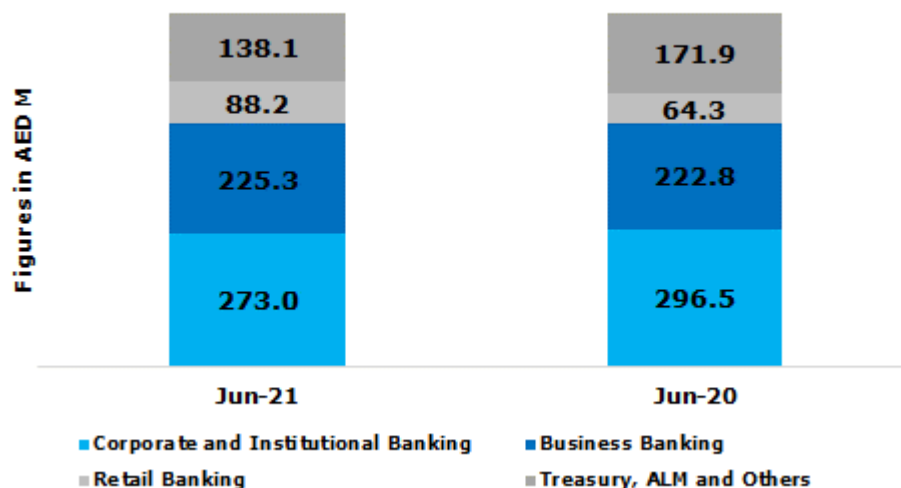
- Ample liquidity was maintained with lending to stable resources ratios at 79.3% (2020: 82.1%) and eligible liquid assets ratio (ELAR) at 22.5% (2020: 20.8%).
- The capital adequacy ratio (CAR) is being kept at a recent high to underpin the bank's ability to ride out any challenges arising out of the evolving operating landscape. CAR stood at 19.6% (Tier 1 ratio of 18.4% 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 0.3% for the corresponding period June 2020.
- Return on average equity was 2.7% compared to 2.1% for the corresponding period June 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 six month ended 30 June 2021 was AED 498.3 million, a decline of 4.1% compared to the corresponding period of 2020. Operating income from Retail Banking increased by 37.1%, and Treasury, ALM & others have decreased by 19.7% 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. However, the current economic outlook depicts signs of a return to growth on the back of 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 30 June 2021, NBF's advances to deposits ratio stood at 84.7% (2020: 83.5%), net stable funding ratio (NSFR) at 109.3% (2020: 106.6%), and liquidity coverage ratio (LCR) at 383.2% (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 one is an electronic banking service unit) across the UAE.

Awards and Accolades

NBF bagged the most innovative emerging technology implementation award at the MEA Finance's Banking Technology Awards 2021.



Vince Cook
Chief Executive Officer



Adnan Anwar
Deputy Chief Executive Officer