

Management Discussion and Analysis Report

National Bank of Fujairah PJSC

For the six month period ended 30 June 2023

National Bank of Fujairah posted a strong set of results in the first half of 2023 with net profit improving 120.7% to reach AED 332.1 million for the half year.

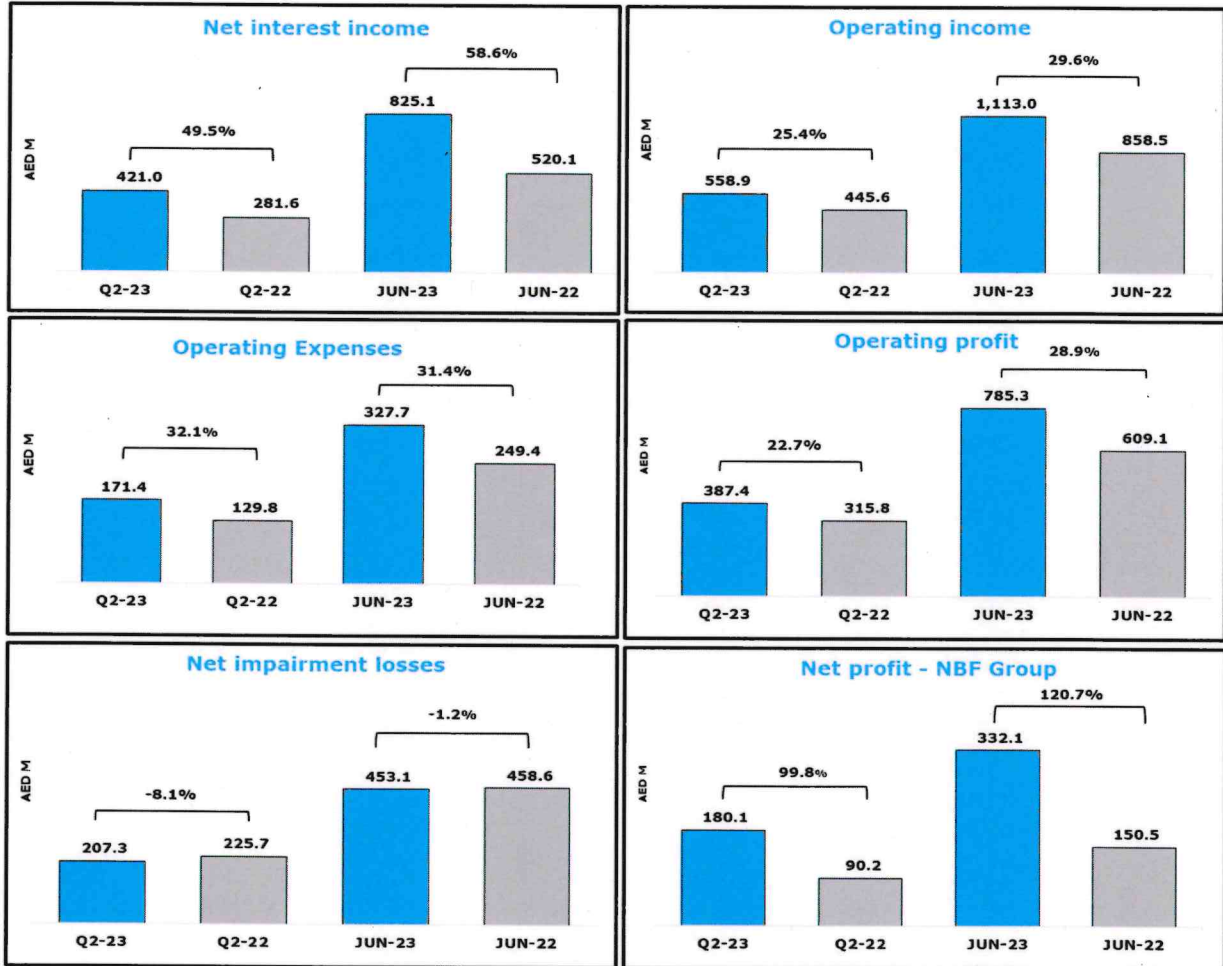
26 July 2023: National Bank of Fujairah PJSC (NBF) is pleased to announce its results today for the six month period ended 30 June 2023.

Overview of Results and Operational Performance for the six month period ended 30 June 2023

NBF recorded year-on-year growth of 120.7% to close the six month period with a net profit of AED 332.1 million compared to AED 150.5 million in the corresponding period. On the back of a robust Q2 2023 performance, NBF posted a net profit of AED 180.1 million in the second quarter of 2023, a rise of 99.8% over the corresponding quarter, which reflects the interest rate environment during the current quarter and a high level of resilience in its core business despite the prevailing geopolitical headwinds and an uncertain global environment.

NBF maintained its policy of prudent and transparent recognition of problem accounts taking into consideration the new credit risk standards being introduced by the Central Bank of the UAE and the risk of a global recession. NBF booked net impairment provisions of AED 453.1 million for the six month period ended 30 June 2023 compared to AED 458.6 million in the corresponding period. During the period, the bank's impairment reserve reduced by 2.4% to AED 164.2 million compared to AED 168.2 million as at 31 December 2022. Total provision coverage ratio improved to 116.9% compared to 101.5% as at 31 December 2022. The NPL ratio improved to 5.7% compared to 6.9% as at 31 December 2022, as the bank successfully progressed the resolution of a few legacy exposures.

Summary of profit and loss for the six month period ended 30 June 2023.



Aided by higher net interest income and net income from Islamic financing and investment activities, NBF posted an operating profit of AED 785.3 million for the six month period, a substantial increase of 28.9% compared to AED 609.1 million in the corresponding period and up 22.7% for the three month period ended 30 June 2023 over the corresponding period.

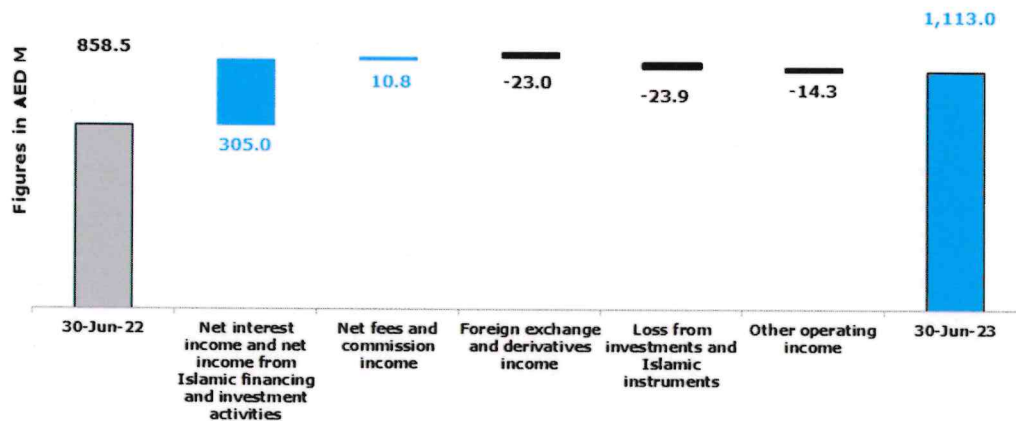
Operating income reached AED 1.1 billion for the six month period ended 30 June 2023, up 29.6% compared to AED 858.5 million in the corresponding period, reflecting the benefit from rising interest rates, good momentum experienced in our businesses and enhanced asset and liability management. Operating income growth of 25.4% was recorded for the three month period ended 30 June 2023 over the corresponding period; and up 0.9% compared to Q1 2023.

Net interest income and net income from Islamic financing and investment activities grew 58.6% to AED 825.1 million for the six month period ended 30 June 2023 compared to AED 520.1 million in the corresponding period. It was up 49.5% for the three month period ended 30 June 2023 compared to the corresponding period; and up 4.2% compared to Q1 2023. Net fees, commission and other income stood at AED 211.0 million for the six month period ended 30 June 2023 compared to AED 214.5 million in the corresponding period.

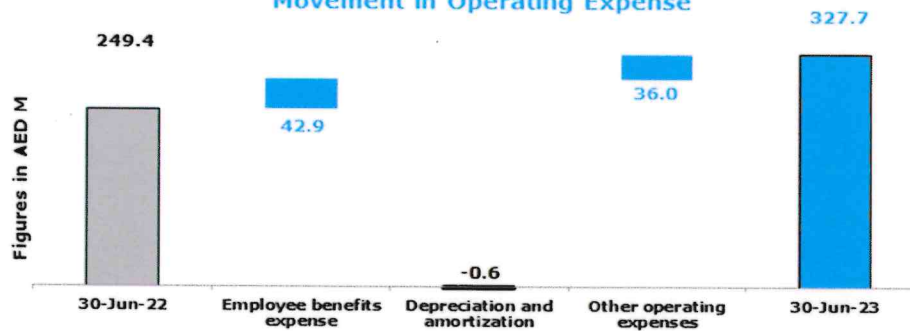
Foreign exchange and derivatives income stood at AED 79.5 million for the six month period ended 30 June 2023 compared to AED 102.5 million in the corresponding period.

Operating expenses increased by 31.4%, reflecting NBF's investments in its businesses, systems, infrastructure and people. These investments include a set of digital initiatives to further enhance the focus on exceptional customer service through digital adoption and innovation. Further, the impact of rising inflation continued to affect our operating expenses. NBF's cost-to-income ratio stood at 29.4% compared to 29.1% in the corresponding period; remaining well within the mid-industry range reflecting on-going cost discipline.

Movement in Operating Income



Movement in Operating Expense



Summary of financial position as at 30 June 2023

Figures in AED M

	JUN-2023	DEC-2022	Change %	JUN-23	JUN-22	Change %
Total Assets	47,861	47,624	0.5%	47,861	43,715	9.5%
Loans and Advances and Islamic Financing Receivables	28,397	26,915	5.5%	28,397	27,725	2.4%
Customer Deposits and Islamic Customer Deposits	34,880	35,736	-2.4%	34,880	31,839	9.6%
Investments and Islamic instruments	6,591	6,350	3.8%	6,591	5,125	28.6%
Total Equity	6,152	5,850	5.2%	6,152	5,728	7.4%

Loans and advances and Islamic financing receivables rose by 5.5% to reach AED 28.4 billion compared to AED 26.9 billion at 2022 year-end, up by 2.4% from 30 June 2022.

Customer deposits and Islamic customer deposits reduced by 2.4% at AED 34.9 billion compared to AED 35.7 billion at 2022 year-end, and were up by 9.6% from 30 June 2022. Current and Saving Accounts (CASA) deposits stood at 41.6% of total customer deposits softening the impact of increasing rates for fixed term products on deposit costs.

Investments and Islamic instruments increased by 3.8% to reach AED 6.6 billion compared to AED 6.3 billion at 2022 year-end, up by 28.6% from 30 June 2022 evidencing the deployment of a portion of liquidity towards a high-quality investment book offering good risk-to-return as well as access to market liquidity.

Summary of the cash flows and capital expenditure during the six month ended 30 June 2023

During the period, surplus liquidity has been deployed to fund quality loans and investment book growth, while liquidity balances remain well above the bank's risk appetite and regulatory requirements. Cash and cash equivalents amounted to AED 1.8 billion compared to AED 2.1 billion in 30 June 2022. The decrease is mainly on account of a planned reduction in deposit balances and the utilization of liquidity in increasing investments and loans and advances.

During the six month period ended 30 June 2023, NBF had incurred AED 65.3 million in capital expenditure relating to the additions of property, equipment and intangibles compared to AED 35.7 million in the corresponding period.

Key Performance Indicators

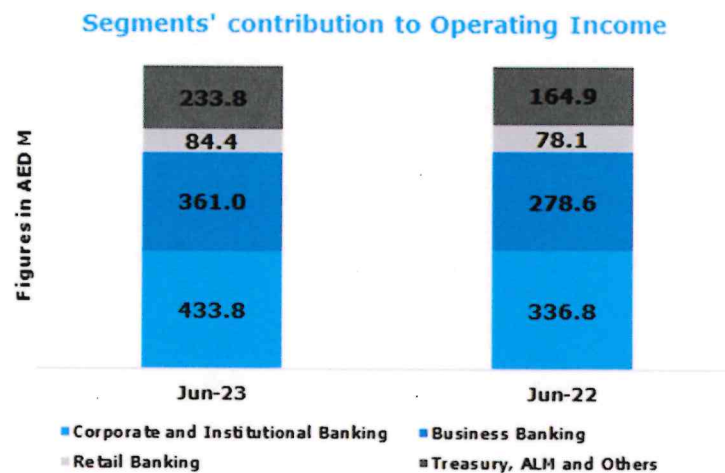
- Total assets rose by 0.5% to reach AED 47.9 billion compared to AED 47.6 billion at 2022 year-end, up by 9.5% from 30 June 2022.
- Ample liquidity has been maintained with lending to stable resources ratios at 75.6% (2022: 72.1%) and eligible liquid assets ratio (ELAR) at 22.2% (2022: 24.9%), well ahead of Central Bank of the UAE's minimum requirements.
- Return on average assets improved to 1.4%, up from 0.7% for the corresponding period.

- Return on average equity improved to 11.1%, up from 5.3% for the corresponding period.

Our Segmented Focus

NBF's business strategy continues to revolve around client relationships, 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 and Business Banking customers for the six month period ended 30 June 2023 was up by 28.8% and 29.6%, respectively, compared to the corresponding period. Operating income from Retail Banking increased by 8.0%, and Treasury, ALM & others have increased by 41.8% compared to the corresponding period.



Further, NBF Islamic recorded operating income of AED 74.4 million for the six month period ended 30 June 2023 compared to AED 68.2 million in the corresponding period.

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

NBF has delivered another very encouraging set of results in the first half of 2023 and been recognised with a number of prestigious awards and endorsements. NBF's strong Q2 results re-affirm that our business strategies and operational priorities are on track to ensure we return to our long-term trend of sustainable growth. It is good to see the bank's underlying resilience and proactive approach in what continues to be an uncertain and challenging environment; resulting in an improvement in business performance and asset quality that augurs well for the coming quarters of 2023 and beyond.

Against the backdrop of the risk of global recession, high gold prices supported by fears of an economic crisis and simmering geopolitical tensions, the nation's economy is projected to grow 3.9 per cent in 2023. This growth will be facilitated through the government's endeavors and collaboration with the private sector that will continue to unlock ample opportunities across diverse spheres coupled with the now substantial foreign direct investment flow into the UAE and hydrocarbon demand.

Gaining from this good market momentum, NBF will capitalize on the quality opportunities to enhance shareholder value and will pursue its digitally enabled approach to servicing customer needs, supported by strong capital adequacy, ample liquidity and a well-diversified balance sheet; being a reliable and consistent player.

Environmental, Social, and Governance (ESG)

NBF published its ESG Position Statement approved by the Board of Directors in April 2023. This highlights the bank's position on important ESG issues and defines the key initiatives. Accordingly, NBF has started the process of implementing Responsible Procurement and ESG integration into Credit assessment. In line with the vision of customer partnership, NBF launched a program for selected customers to help them in their Sustainability journey.

Awards and Accolades


NBF has been awarded the 'Best Innovation in Trade Finance' and 'Most Innovative Trading Platform' awards at the recent MEA Finance Banking Technology Awards; and the 'Best Islamic Window - UAE' at the International Finance Awards 2023. NBF also received the 'Best Fraud & Risk Management Solutions Award' at Banking AI and Analytics Summit & Awards 2023 and the 'Elite Quality Recognition award for 2021 & 2022' by JP Morgan.

Shareholding and Rating

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 upgraded in the quarter to BBB+ / A-2 by Standard & Poor's, both with a stable outlook. The bank is listed on the Abu Dhabi Securities Exchange under the symbol "NBF".



Vince Cook
Chief Executive Officer



Adnan Anwar
Deputy Chief Executive Officer



Brian Mulholland
Chief Financial Officer