

## Management Discussion and Analysis Report

### National Bank of Fujairah PJSC

For the three month period ended 31 March 2020

**NBF recorded an operating profit growth of 3.7% quarter-on-quarter and 2.9% year-on-year reaching AED 293.3 million enabling the bank to secure prudent impairment provisions in the face of the unprecedented operating environment**

*NBF's robust liquidity and capital position and focused asset and liability management positions its well to navigate the uncertain environment with confidence*

**29 April 2020:** NBF is pleased to announce its results for the three month period ended 31 March 2020.

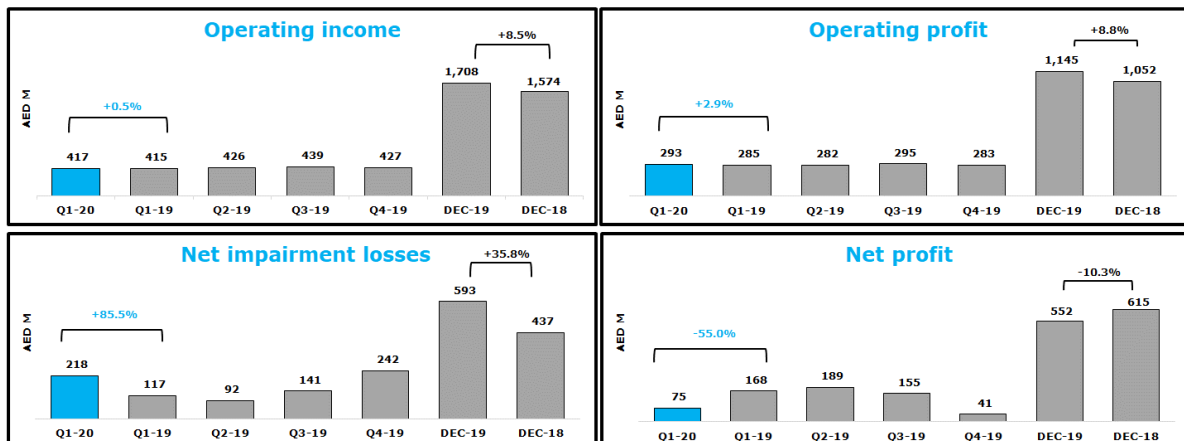
### Overview of Results and Operational Performance for the three month period ended 31 March 2020

NBF achieved an operating profit of AED 293.3 million for the three month period with a growth of 2.9% compared to AED 285.1 million in the corresponding period of 2019 and up 3.7% compared to Q4 2019 on the back of higher Income from investments and Islamic instruments and cost management. NBF's cost to income ratio improved to 29.8% in Q1 2020 from 31.4% in Q1 2019.

The operating performance supported NBF's prudent loan loss provisioning policy in response to the current market conditions. The bank has taken the opportunity to recognize stage 3 impairment provisions towards an exceptional group exposure and enhanced stage 1 and 2 provisions for the potential impact of COVID-19. NBF secured net impairment provisions of AED 217.9 million for the three month period compared to AED 117.5 million in 2019. Total provision coverage ratio (*including impairment reserves*) stood at 96.3% compared to 107.3% as at 31 December 2019. The NPL ratio stood at 6.7% compared to 5.4% as at 31 December 2019.

NBF posted a net profit of AED 75.4 million for the three month period ended 31 March 2020, up 85.9% compared to Q4 2019 and down 55.0% compared to AED 167.6 million in the corresponding period of 2019, despite the continuing subdued business activity in the market exacerbated by the COVID-19 outbreak.

### Summary of profit and loss for the for the three month period ended 31 March 2020

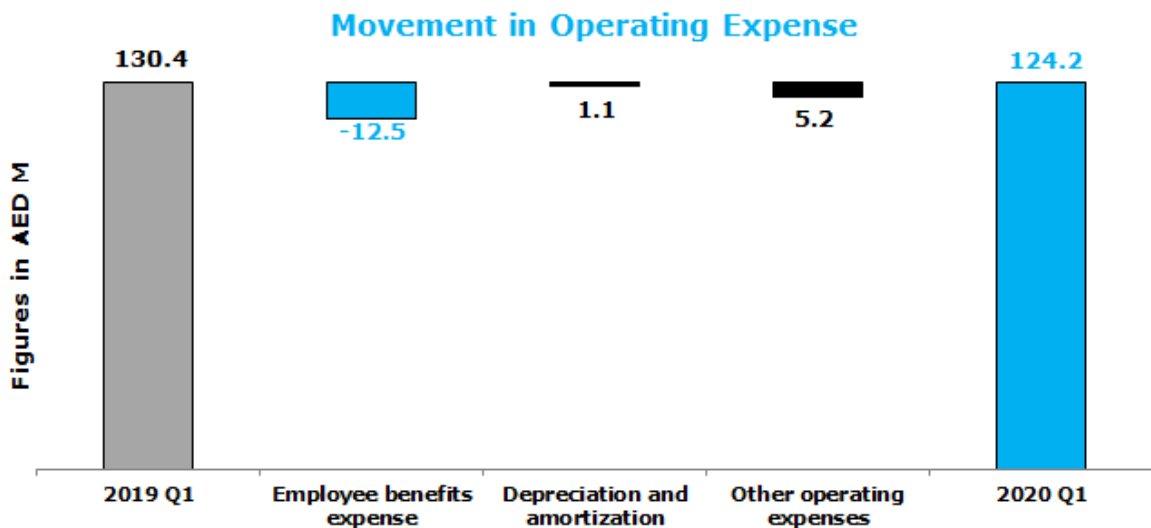
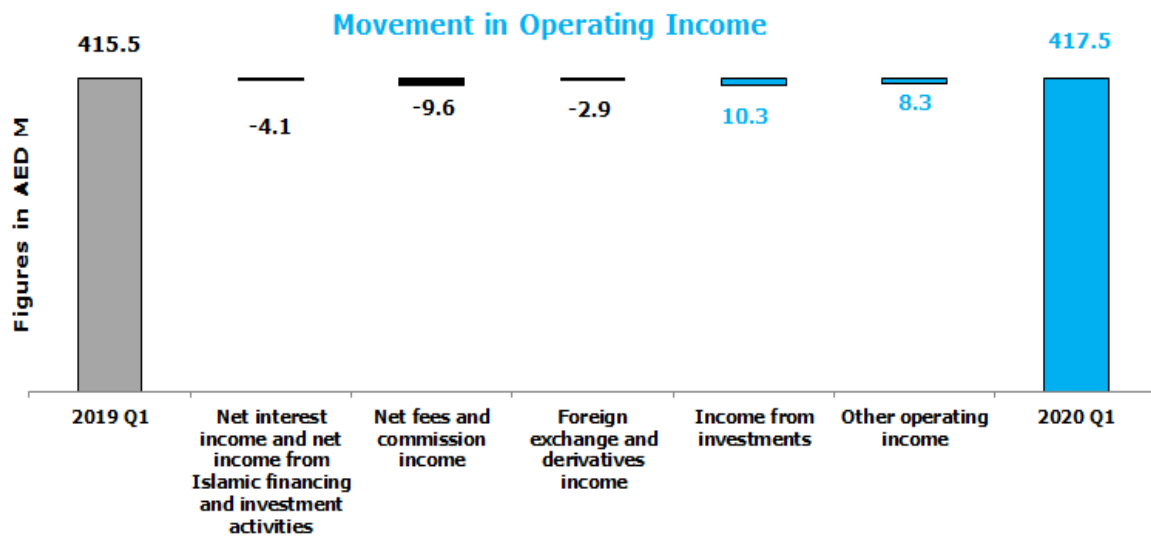


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Commercial Registration No 63, Head Office Fujairah

- Operating income at AED 417.5 million showed marginal growth of 0.5% compared to the corresponding period of 2019. This was driven by a high level of resilience in the bank's core business and enhanced balance sheet management seeking to mitigate the impacts of the current volatile markets. Net interest income and net income from Islamic financing and investment activities and net fees, commission and other income stood at AED 276.3 million and AED 89.3 million respectively compared to AED 280.4 million and AED 90.5 million in the corresponding period of 2019. Foreign exchange and derivatives income reached AED 37.0 million compared to AED 39.9 million in the corresponding period of 2019. Income from investments and Islamic instruments was AED 14.9 million compared to AED 4.6 million in the corresponding period of 2019.



- Operating expenses reduced by 4.7% to AED 124.2 million compared to AED 130.4 million in the corresponding period of 2019, reflecting the measures adopted in line with the changing market demands with the prime focus on exceptional customer service through the use of digital solutions. The cost-to-income ratio improved to 29.8% from 31.4% in the corresponding period of 2019.

## Summary of financial position as at 31 March 2020

Figures in AED M

	MAR-20	DEC-19	Change %	MAR-'20	MAR-'19	QoQ
Total Assets	43,281	42,805	1.1%	43,281	40,043	8.1%
Loans and Advances and Islamic Financing Receivables	27,181	27,095	0.3%	27,181	26,206	3.7%
Customer Deposits and Islamic Customer Deposits	32,030	31,950	0.3%	32,030	30,220	6.0%
Total Shareholders' Equity	6,170	6,351	-2.9%	6,170	5,176	19.2%

- Loans and advances and Islamic financing receivables reached AED 27.2 billion from AED 27.1 billion at 2019 year-end, up by 3.7% from 31 March 2019. This reflects our prudent balance sheet and credit risk management in the face of low economic activity in the market.
- Customer deposits and Islamic customer deposits depicted a growth of 0.3% at AED 32.0 billion compared to AED 31.9 billion at 2019 year end up by 6.0% from 31 March 2019.
- Total assets rose by 1.1% to reach AED 43.3 billion from AED 42.8 billion at 2019 year-end up by 8.1% from 31 March 2019.
- Equity stood at AED 6.2 billion compared to AED 6.4 billion at 2019 year end, down 2.9% on account of dividend payment. Equity rose 19.2% compared 31 March 2019 reflecting profit retention and increase in Additional Tier 1 capital.

## Summary of the cash flows and capital expenditure during three month period ended 31 March 2020

For the three months period ended 31 March 2020, Bank's cash and cash equivalents increased by AED 837.6 million compared to the corresponding period of 2019. This was primarily due to the change in due from Central bank of AED 1.3 billion, net proceeds of investments amounting to AED 942.8 million, in line with Bank's strategy, and additional term borrowings of AED 459.1 million.

During the first three months of year 2020, NBF had incurred AED 13.3 million on capital expenditures relating to the additions of property and equipment and capital work-in-progress against AED 93.7 million in 2019.

## Key Performance Indicators

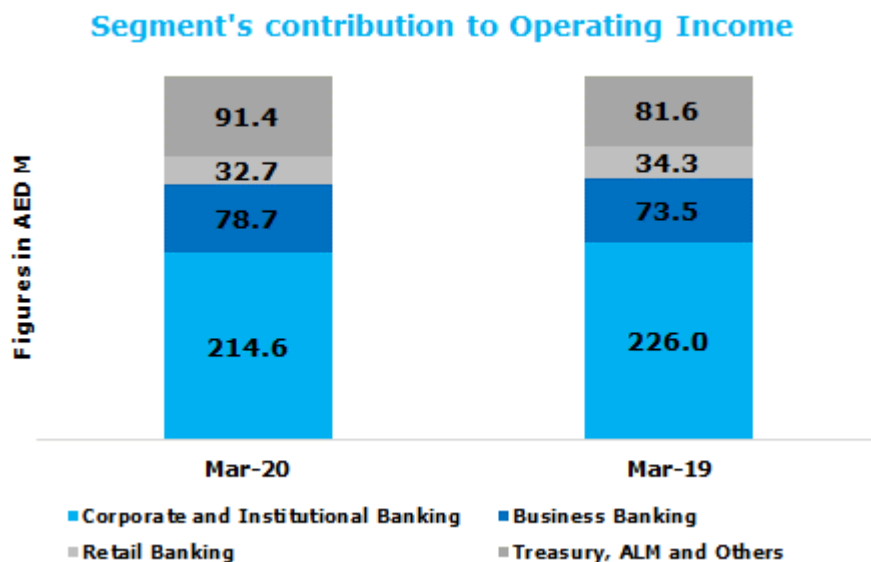
- Strong liquidity was maintained with lending to stable resources ratios at 84.9% (2019: 85.9%) and eligible liquid assets ratio (ELAR) at 18.9% (2019: 21.7%) well ahead of all CBUAE minimum requirements.
- The capital adequacy remained solid at 17.3% (Tier 1 ratio of 16.2% and CET 1 ratio of 12.6%) compared to 17.8% (Tier 1 ratio of 16.6% and CET 1 ratio of 12.9%) at end of 2019.

- Return on average assets was 0.7% compared to 1.7% for the corresponding period in 2019 and return on average equity was 4.8% compared to 13.0% for the corresponding period in 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 period ended 31 March 2020 was AED 293.3 million, declined by 2.0% compared to the corresponding period of 2019. Operating income from Retail Banking has declined by 4.8%, while Treasury, ALM & others have increased by 12.0% compared to the corresponding period of 2019. The overall growth reflects the Group's strategy of reliably supporting its quality customers and at the same time diversifying its sources of business.



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

Q1 2020 saw an unprecedented change to the world economy with recessionary trends building rapidly across the globe, oil prices reaching exceptionally low levels and massive government support programmes being rolled out, as global economies remain on lock-down due to the COVID-19 pandemic. Despite this backdrop, NBF achieved positive operating profit growth underscoring the resilience of its business model and proactive asset and liability management.

To contain repercussions of COVID-19 pandemic, below are the key measures taken by the UAE Central Bank:


- AED 256 billion relief package for the economy to counter the possible adverse implications.

- Introduction of Targeted Economic Support Scheme (TESS) programme in an effort to support the banking industry in facilitating deferment of customers' loans impacted by the COVID-19. NBF has been supporting and providing relief to its customers impacted by COVID19.
- Reduction in the percentage of cash reserve requirements on current, savings, call and similar accounts for all banks by half, from 14% to 7%.
- Changes to the capital treatment of Retail and Corporate Small and Medium sized Entities (SME).
- The Capital Conservation Buffer (CCB) which remains at 2.5%, but banks are allowed to utilise into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020 until 31 December 2021.

NBF is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance. NBF has successfully taken a number of measures ranging from operational branches for reduced working hours to remote working and use of digital solutions to ensure continuity of customer services. NBF has been proactively managing its liquidity and continues to be in a strong position which coupled with solid capital adequacy level positions it well to weather difficult operating environment. NBF's success in leveraging technology continues to enhance the Group's responsiveness and adaptability to complement its growth strategy, especially during these times where access to digital and online channels is key to delivering value. In line with the UAE government measures and Central Bank's TESS scheme to minimize the impact of COVID19 to businesses and individuals, NBF has been assisting and providing relief to its eligible customers.

### Awards and Accolades

For the third year in a row, NBF was awarded "The Dubai Chamber CSR Label 2019", in recognition for 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**  
Chief Financial Officer