

## Management Discussion and Analysis Report

### National Bank of Fujairah PJSC

For the nine month period ended 30 September 2020

**NBF posted operating income of AED 1.1 billion and net profit of AED 66.3 million, continuing to build substantial impairment provisions on account of the challenges associated with the persistence of COVID-19**

*Robust capital adequacy and liquidity levels coupled with effective cost management position the bank well for a strong recovery as conditions improve*

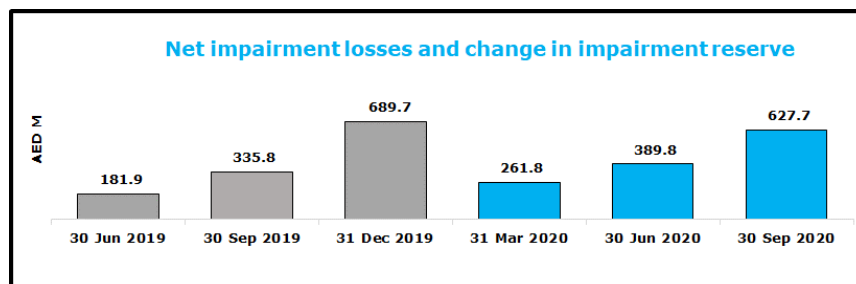
**28 October 2020:** NBF is pleased to announce its results for the nine month period ended 30 September 2020.

## Overview of Results and Operational Performance for the nine month period ended 30 September 2020

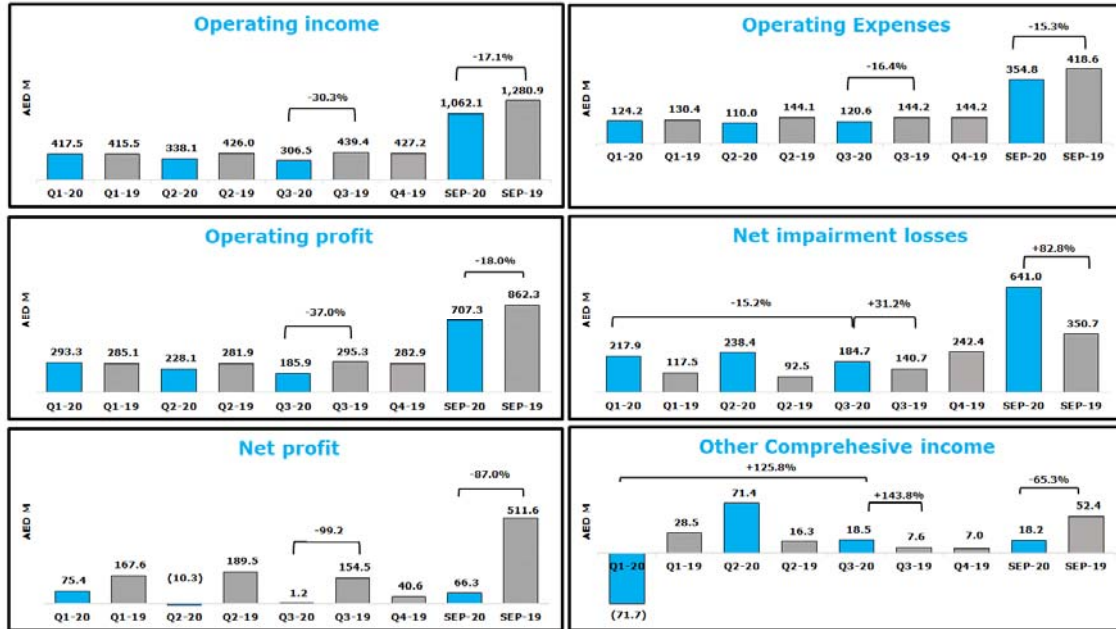
NBF achieved an operating profit of AED 707.3 million for the nine month period ended 30 September 2020 compared to AED 862.3 million in the corresponding period of 2019.

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 current market conditions. NBF secured net impairment provisions of AED 641.0 million for the nine month period compared to AED 350.7 million in 2019. During the nine month period ended 30 September 2020, the bank's impairment reserve reduced by AED 13.3 million to AED 349.8 million from AED 363.1 million at 2019 year-end. Total provision coverage ratio (including impairment reserves) stood at 81.4% compared to 107.3% as at 31 December 2019. The NPL ratio stood at 8.5% compared to 7.5% as at 30 June 2020; 6.7% as at 31 March 2020 and 5.4% as at 31 December 2019 evidencing both the expected deterioration in credit quality and a reduction in the loan book.

NBF posted a net profit of AED 66.3 million for the nine month period ended 30 September 2020, down 87.0% compared to AED 511.6 million in the corresponding period of 2019 after absorbing the substantial increase in provisions. While, NBF's other comprehensive income increased by AED 18.2 million and AED 18.5 million for the nine and three months period ended 30 September 2020 respectively on the back of improvement in investments designated as fair value through other comprehensive income (FVOCI).

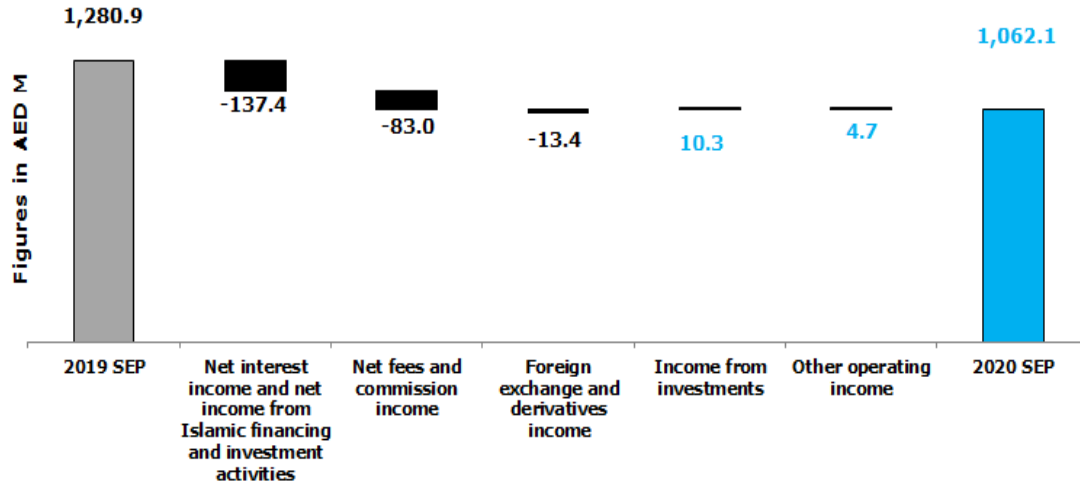


## Summary of profit and loss for the nine month period ended 30 September 2020

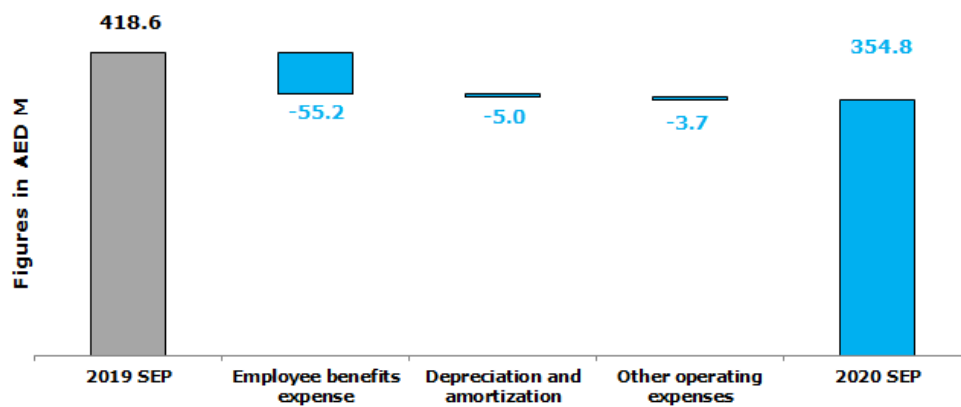


- Operating income stood at AED 1.1 billion down 17.1% compared to AED 1.3 billion in the corresponding period of 2019 reflecting the difficult operating environment. Declining interest rates, sluggish economic activity and contraction in the loan book impacted the operating performance mitigated by management focus on protecting the core business, adapting its investment strategy and achieving operating efficiencies on the back of its digitalization efforts. Net interest income and net income from Islamic financing and investment activities and net fees, commission and other income stood at AED 722.1 million and AED 222.3 million respectively compared to AED 859.4 million and AED 300.7 million in the corresponding period of 2019. Foreign exchange and derivatives income reached AED 99.1 million compared to AED 112.5 million in the corresponding period of 2019. Income from investments and Islamic instruments marked a significant bounce back from the corresponding period of 2019 to AED 18.6 million during the nine month period ended 30 September 2020. Unrealised gain on FVOCI investments stood at AED 49.6 million.

### Movement in Operating Income



### Movement in Operating Expense



- Operating expenses reduced by 15.3% to AED 354.8 million compared to AED 418.6 million in the corresponding period of 2019, reflecting the measures adopted in line with the changing market demands and the significant move towards the use of digital solutions to maintain the bank's exceptional customer service. The cost-to-income ratio stood at 33.4% compared to 32.7% in the corresponding period of 2019 reflecting the lower operating income.

## Summary of financial position as at 30 September 2020

Figures in AED M

	SEP-20	DEC-19	Change %		SEP-'20	SEP-'19	QoQ
Total Assets	41,777	42,805	-2.4%		41,777	42,515	-1.7%
Loans and Advances and Islamic Financing Recievables	25,370	27,095	-6.4%		25,370	27,556	-7.9%
Customer Deposits and Islamic Customer Deposits	31,204	31,950	-2.3%		31,204	31,192	0.0%
Total Shareholders' Equity	6,210	6,351	-2.2%		6,210	5,526	12.4%

- Loans and advances and Islamic financing receivables stood at AED 25.4 billion compared to AED 27.1 billion at 2019 year-end and AED 27.6 billion as at 30 September 2019. High quality liquid assets stood at AED 7.2 billion compared to AED 7.9 billion at 2019 year-end and AED 7.4 billion as at 30 September 2019. This reflects on-going prudent balance sheet and liquidity management actions.
- Customer deposits and Islamic customer deposits stood at 30 September 2019 level of AED 31.2 billion compared to AED 31.9 billion at 2019 year-end. Current and Saving Accounts (CASA) deposits increased by AED 372.0 million from 2019 year-end, a 3.8% increase to AED 10.0 billion as at 30 September 2020. CASA deposits improved to 32.2% of total customer deposits compared to 30.3% as at 31 December 2019.
- Total assets reached AED 41.8 billion (AED 42.8 billion at 2019 year-end).
- Shareholders' equity stood at AED 6.2 billion compared to AED 6.4 billion at 2019 year-end, up by 12.4% from 30 September 2019.

## Summary of the cash flows and capital expenditure during nine month period ended 30 September 2020

For the nine months period ended 30 September 2020, Bank's cash and cash equivalents increased by AED 6.1 billion compared to the corresponding period of 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 5.6 billion.

During the nine months of year 2020, NBF had incurred AED 28.5 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

- Ample liquidity was maintained with lending to stable resources ratios at 80.6% (2019: 85.9%) and eligible liquid assets ratio (ELAR) at 20.4% (2019: 21.7%), well ahead of all CBUAE minimum requirements.
- The capital adequacy ratio remains very strong and stood at 19.1% (Tier 1 ratio of 18.0% 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.

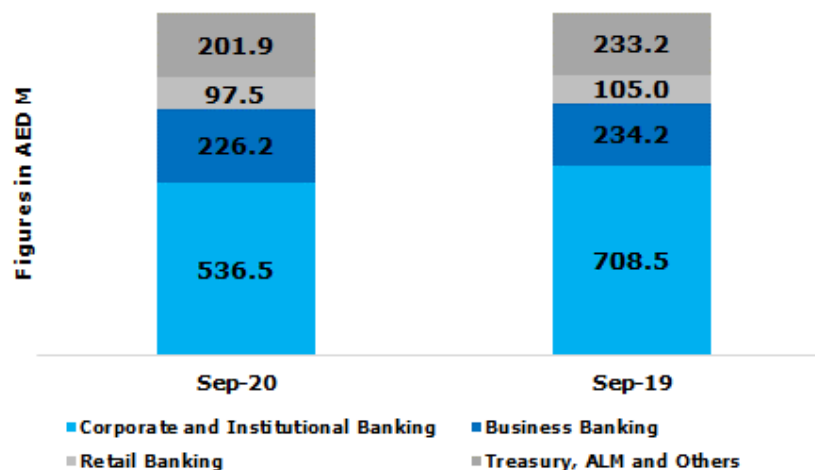
- Return on average assets was 0.2% compared to 1.7% for the corresponding period in 2019 and return on average equity was 1.4% compared to 12.8% for the corresponding period in 2019.

### 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 30 September 2020 was AED 762.7 million, declined by 19.1% compared to the corresponding period of 2019. Operating income from Retail Banking has declined by 7.1%, and Treasury, ALM & others have decreased by 13.4% 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.

### Segment's contribution to Operating Income



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

Q3 2020 witnessed unprecedented disruption 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. 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 has the bank been 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 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

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to remote working and use of digital solutions to ensure continuity of customer services. NBF has been proactively managing its liquidity and further strengthened its position to navigate through these uncertain environment with confidence. As at 30 September 2020, NBF's advances to deposits ratio stood at 81.3%, NSFR at 110.2% and LCR at 413.4%. 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.



**Vince Cook**  
Chief Executive Officer



**Adnan Anwar**  
Chief Financial Officer