

Management Discussion and Analysis Report National Bank of Fujairah PJSC For the year ended 31 December 2019

Operating profit and income up over 8% exhibiting resilient business performance and effective asset and liability management

09 February 2020: NBF is pleased to announce its results for the year ended 31 December 2019 in accordance with the approval received from the Central Bank of the United Arab Emirates (CBUAE).

Overview of Results and Operational Performance for the year ended 31 December 2019

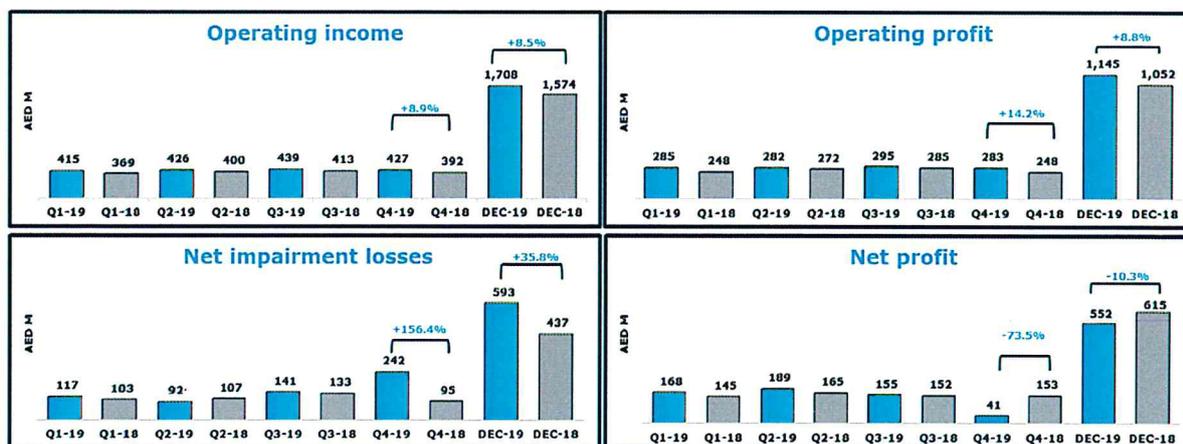
NBF achieved a strong operating profit of AED 1.15 billion which increased by 8.9% compared to AED 1.05 billion in 2018 on the back of higher fee income, exchange and derivatives income and Income from investments and Islamic instruments. The bank's cost to income ratio further improved to 33.0% in 2019 from 33.2% in 2018.

The strong operating performance supported NBF's prudent loan loss provisioning policy in response to the continued slow-down and credit stress in the market as well as embedding 'IFRS 9 – Financial Instruments' provisioning accounting standard. NBF secured net impairment provisions of AED 593.0 million compared to AED 436.8 million in 2018. Total provision coverage ratio (including impairment reserves) improved to 107.3% from 102.0% as at 31 December 2018. The NPL ratio stood at 5.44% compared to 5.13% as at 31 December 2018.

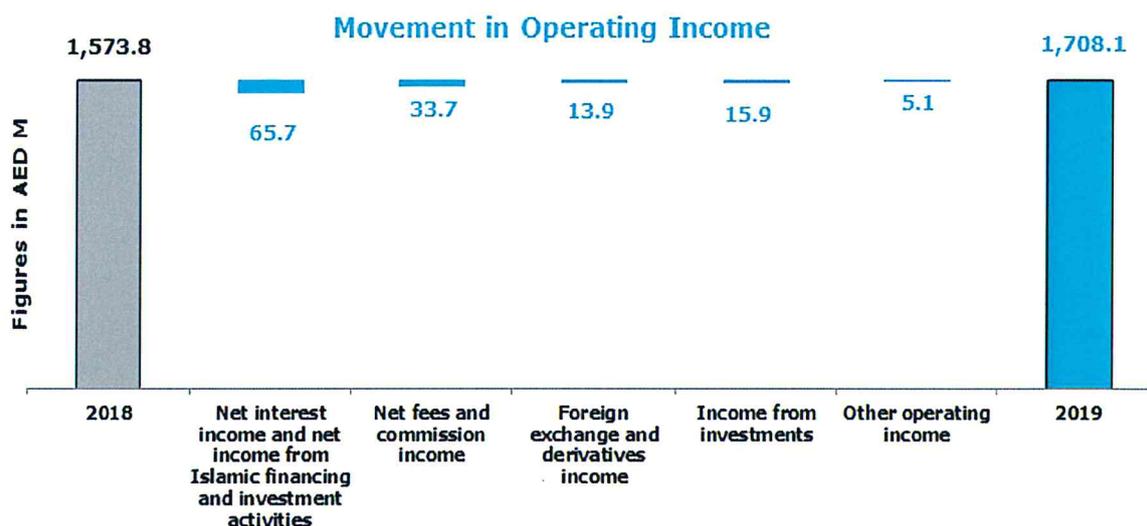
NBF recorded a net profit of AED 552.2 million compared to AED 615.3 million in 2018, depicting a decline of 10.3% after absorbing the elevated level of provisions. While, NBF's total comprehensive income for the year was AED 611.5 million up 4.5% compared to AED 585.4 million in 2018 on the back of improvement in fair value of investments designated as fair value through other comprehensive income (FVOCI) by AED 59.3 million in 2019.

A distribution of profits of 13.5% has been recommended in the form of cash dividends of 10.0% (2018: 7.5%) and bonus shares of 3.5% (2018: 12.5%) of the paid-up capital.

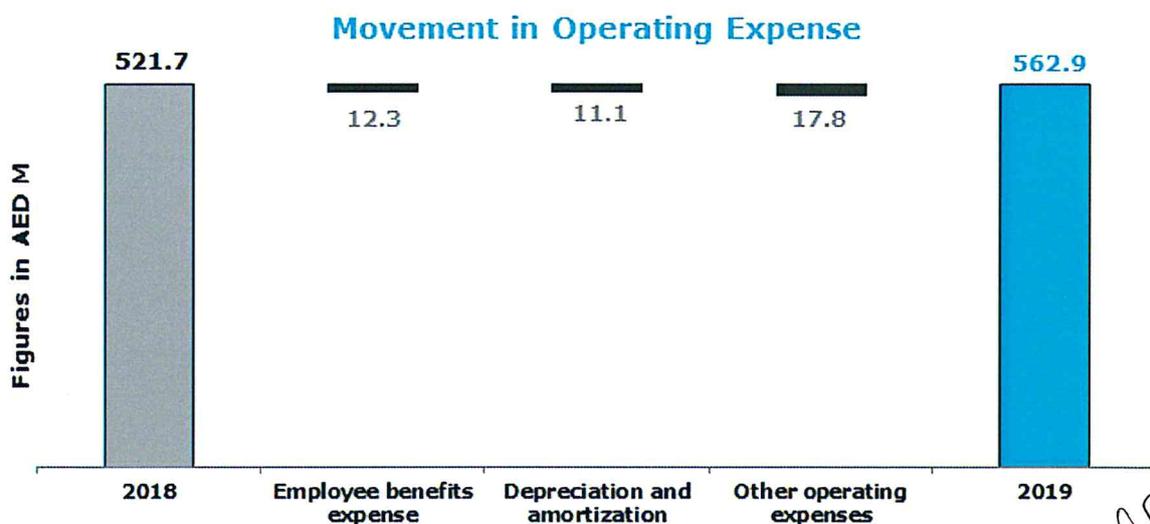
Summary of profit and loss for the year ended 31 December 2019



- Operating income at AED 1.7 billion experienced a growth of 8.5%. This was driven by a high level of resilience in the bank's core business with good volume growth, enhanced balance sheet management and effective pricing strategies seeking to mitigate the margin compression across the global economy. Net interest income and net income from Islamic financing and investment activities grew by 6.0% and net fees, commission and other income by 10.9% compared to 2018. Income from investments and Islamic instruments marked a significant bounce back with a fair value gain of AED 10.8 million compared to a fair value loss of AED 5.0 million in 2018.



- Foreign exchange and derivatives income saw a growth of 10.1% to reach a record level of AED 151.2 million compared to AED 137.3 million in 2018.



- Operating expenses increased by 7.9%, reflecting NBF's investments in digital initiatives and the bank's infrastructure to improve customer service and competitiveness in line with changing market demands. Nevertheless, the cost-to-income ratio improved to 33.0% compared to 33.2% in 2018.

Summary of financial position as at 31 December 2019

Figures in AED M

	DEC-19	DEC-18	Change %	DEC-'19	SEP-'19	QoQ
Total Assets	42,805	39,783	7.6%	42,805	42,515	0.7%
Loans and Advances and Islamic Financing Receivables	27,095	26,202	3.4%	27,095	27,556	-1.7%
Customer Deposits and Islamic Customer Deposits	31,950	30,472	4.8%	31,950	31,192	2.4%
Total Shareholders' Equity	6,351	5,122	24.0%	6,351	5,526	14.9%

- Loans and advances and Islamic financing receivables rose 3.4% from AED 26.2 billion at 2018 year end to AED 27.1 billion.
- Customer deposits and Islamic customer deposits depicted a growth of 4.8% at AED 31.9 billion compared to AED 30.5 billion at 2018 year end.
- Total assets rose by 7.6% to reach AED 42.8 billion from AED 39.8 billion at 2018 year-end.
- Shareholders' equity rose 24.0% from AED 5.1 billion at 2018 year-end to AED 6.4 billion on the back of successful issuance of Additional Tier 1 (AT1) capital securities of US(\$) 350 million.

Summary of the cash flows and capital expenditure during the year ended 31 December 2019

For the year ended 31 December 2019, Bank's cash and cash equivalents reduced by AED 208.6 million compared to 2018. This was primarily due to net purchase of investments amounting to AED 584.4 million, in line with Bank's strategy, and repayment of term borrowings of AED 569.3 million. It was partially off-set by net increase in AT1 Capital Securities of AED 785.6 million.

During the year 2019, NBF had incurred AED 93.7 million on capital expenditures relating to the additions of property and equipment and capital work-in-progress against AED 153.2 million in 2018.



Main Performance Indicators

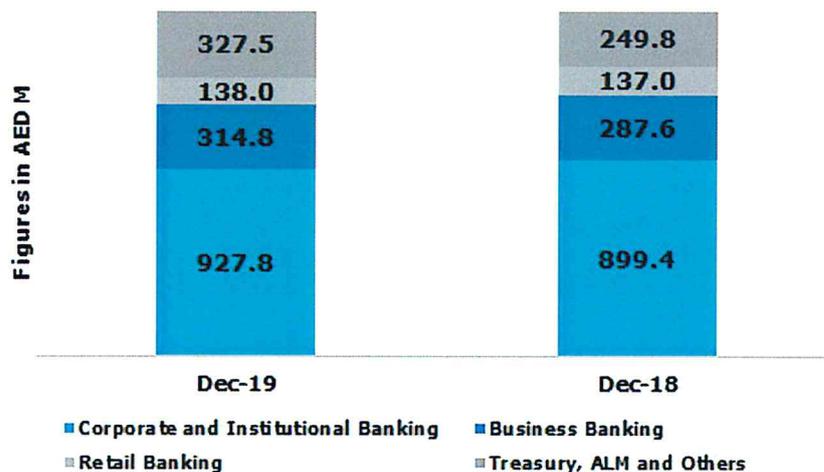
- Strong liquidity was maintained with lending to stable resources ratios (LSRR) at 85.9% (2018: 86.5%), eligible liquid assets ratio (ELAR) at 21.7% (2018: 21.9%) and advances to deposits ratio at 84.8% (2018: 86.0%), well ahead of all CBUAE minimum requirements.
- The bank's Capital adequacy ratio improved significantly to 17.8% (Tier 1 ratio of 16.6% and CET 1 ratio of 12.9%) from 15.2% (Tier 1 ratio of 14.1% and CET 1 ratio of 12.6%) in 2018.
- Return on average assets was 1.3% from 1.6% in 2018 while return on average equity stood at 9.6% from 12.3% in 2018.
- NBF's credit rating was re-affirmed at 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 stable outlook, highlighting the bank's underlying strength, prudent risk management and resilience. Capital Intelligence also reaffirmed NBF's financial strength outlook as 'stable'. The bank's Long Term Foreign Currency Rating (FCR) has been maintained at 'A-' since 2008, reflecting its prudent and proactive risk management practices and sound business model.

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 2019 was AED 1.2 billion, up by 4.7% compared to 2018. Operating income from retail banking has grown by 0.7%, while Treasury, ALM & others have increased by 31.1% compared to 2018. 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




Awards and Accolades

- NBF was ranked second at the Top CEO Award 2019 by Mediaquest in the category for Top 10 Banking Companies in the GCC and the first in the banking sector in the UAE.
- NBF achieved an exceptional performance winning the following eight trophies at Banker Middle East Awards 2019:
 - ★ Best Customer Service - Corporate / Investment Banking UAE
 - ★ Best Treasury Management
 - ★ Best SME Internet Banking Service
 - ★ Best SME Loan
 - ★ Best SME Trade Finance
 - ★ Best Ladies Proposition - NBF Elham
 - ★ Best Premium Banking Services - NBF Priority
 - ★ Best Mobile Banking Service UAE - Retail
- NBF won Bronze Award in Employee Empowerment category at the International customer Experience Awards ceremony held in Amsterdam.
- The Bank won the International Employee Engagement Award and achieved the runner up spot for the Best Employer accolade at the International Business Excellence Awards 2019, underscoring its leading employer brand in the UAE and the bank's focus on nurturing the best talent in the market as well as its commitment to creating a great place to work.
- NBF swept multiple accolades at the Gulf Customer Experience Awards 2018 - Employee Engagement & Happiness, Employee Insights & HR Metrics, Overall Experience Award and Employee Empowerment (runner-up), awarded the 'Most Improved Branches Award' by Ethos Integrated Solutions based on their analysis of 2018 Customer Experience Benchmarking Index. NBF was also awarded at the Emirati Women's Conference organised by The Emirates Intellectual Property Society, for our commitment to empowering and supporting the success journeys of Emirati businesswomen through our Elham business segment, as the first bank in the UAE to dedicate such a focused partnership with Emirati women.



Vince Cook
Chief Executive Officer



Adnan Anwar
Chief Financial Officer