

Management Discussion and Analysis Report National Bank of Fujairah PJSC

For the six month period ended 30 June 2020

NBF posted an operating income of AED 755.6 million and net profit of AED 65.1 million after building prudent impairment provisions in response to protracted period of disruptions caused by COVID-19

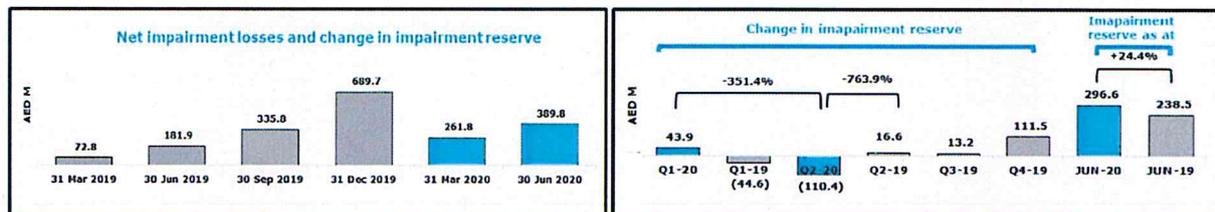
NBF's solid liquidity and capital position coupled with proactive balance sheet and cost management places it in a strong position to navigate the current uncertain environment with confidence

28 July 2020: NBF is pleased to announce its results for the six month period ended 30 June 2020.

Overview of Results and Operational Performance for the six month period ended 30 June 2020

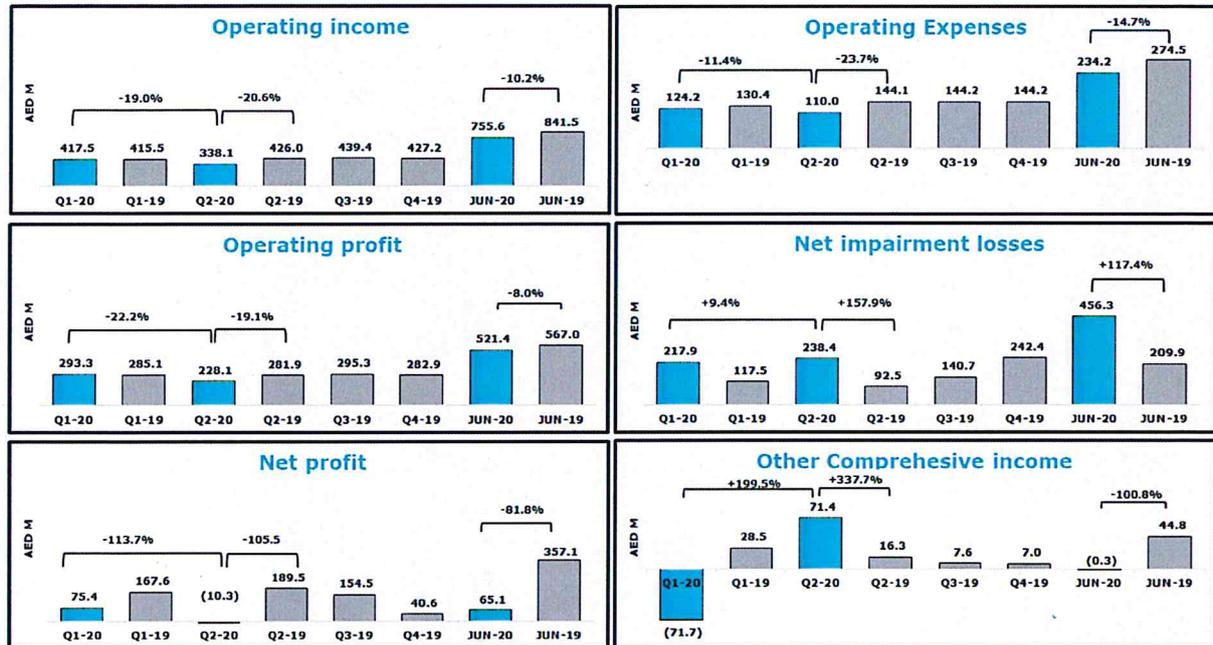
NBF achieved an operating profit of AED 521.4 million for the half year ended 30 June 2020 compared to AED 567.0 million in the corresponding period of 2019.

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 current market conditions. NBF secured net impairment provisions of AED 456.3 million for the six month period compared to AED 209.9 million in 2019. During the six month period ended 30 June 2020, the bank's impairment reserve reduced by AED 66.5 million to AED 296.6 million following the resolution of a number of difficult cases. Total provision coverage ratio (including impairment reserves) stood at 79.6% compared to 107.3% as at 31 December 2019. The NPL ratio stood at 7.5% compared to 6.7% as at 31 March 2020 and 5.4% as at 31 December 2019.

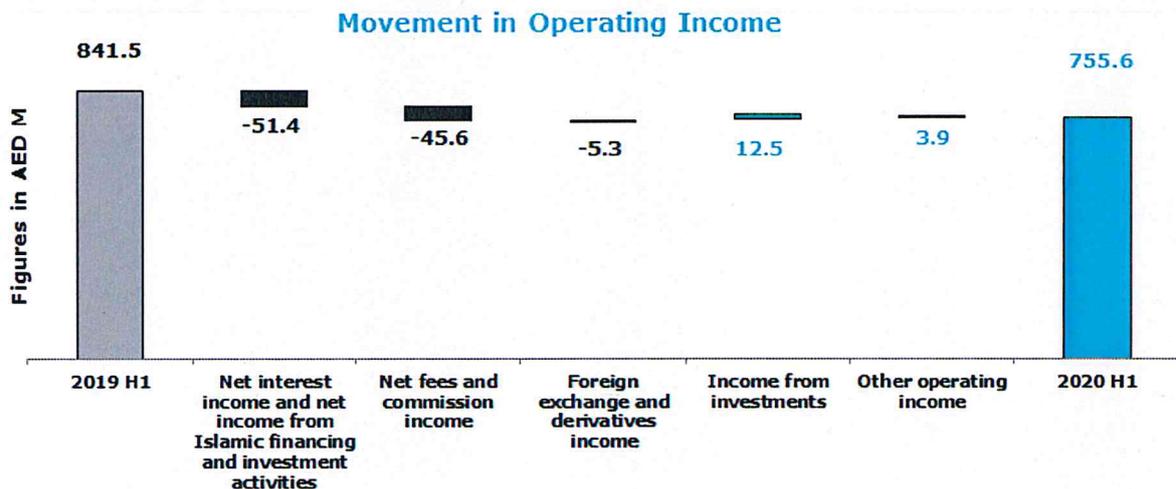


NBF posted a net profit of AED 65.1 million for the six month period ended 30 June 2020, down 81.8% compared to AED 357.1 million in the corresponding period of 2019 after absorbing the elevated level of provisions required to absorb the current exceptional market conditions. While, NBF's other comprehensive income for the three month period ended 30 June 2020 increased by AED 71.4 million on the back of improvement in investments designated as fair value through other comprehensive income (FVOCI).

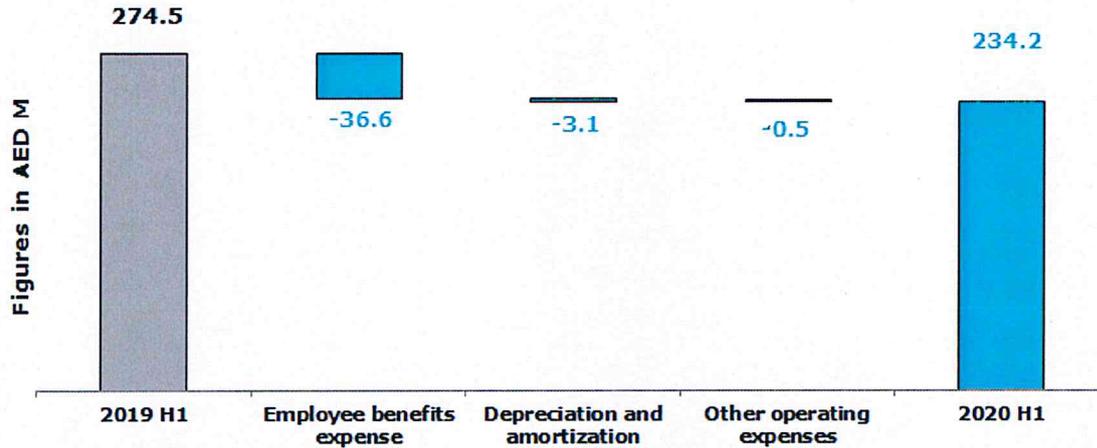
Summary of profit and loss for the six month period ended 30 June 2020



- Operating income stood at AED 755.6 million down 10.2% compared to AED 841.5 million in the corresponding period of 2019 despite the dramatic economic slowdown resulting from the pandemic and consequent lockdown. The operating performance reflects the substantial downward pressure on margins and slowdown in economic activities mitigated by management action to protect the core business. Net interest income and net income from Islamic financing and investment activities and net fees, commission and other income stood at AED 511.9 million and AED 156.7 million respectively compared to AED 563.3 million and AED 198.4 million in the corresponding period of 2019. Foreign exchange and derivatives income reached AED 68.9 million compared to AED 74.2 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 18.1 million during the six month period ended 30 June 2020.



Movement in Operating Expense



- Operating expenses reduced by 14.7% to AED 234.2 million compared to AED 274.5 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 improved to 31.0% from 32.6% in the corresponding period of 2019.

Summary of financial position as at 30 June 2020

Figures in AED M

	JUN-20	DEC-19	Change %	JUN-'20	JUN-'19	QoQ
Total Assets	44,483	42,805	3.9%	44,483	42,539	4.6%
Loans and Advances and Islamic Financing Receivables	26,439	27,095	-2.4%	26,439	27,919	-5.3%
Customer Deposits and Islamic Customer Deposits	32,926	31,950	3.1%	32,926	30,995	6.2%
Total Shareholders' Equity	6,190	6,351	-2.5%	6,190	5,382	15.0%

- Loans and advances and Islamic financing receivables stood at AED 26.4 billion compared to AED 27.1 billion at 2019 year-end and AED 27.9 billion as at 30 June 2019. High quality liquid assets stood at AED 8.1 billion compared to AED 7.9 billion at 2019 year end and AED 7.3 billion as at 30 June 2019. This reflects our on-going prudent balance sheet, credit and liquidity risk management.
- Customer deposits and Islamic customer deposits increased by 3.1% reaching AED 32.9 billion compared to AED 31.9 billion at 2019 year end, up by 6.2% from 30 June 2019. Current and Saving Accounts (CASA) deposits increased by AED 590.6 million from 2019 year-end, a 6.1% increase to AED 10.3 billion as at 30 June 2020. CASA deposits improved to 31.2% of total customer deposits compared to 30.3% as at 31 December 2019.
- Total assets rose by 3.9% to reach AED 44.5 billion from AED 42.8 billion at 2019 year-end, up by 4.6% from 30 June 2019.
- Shareholders' equity stood at AED 6.2 billion compared to AED 6.4 billion at 2019 year end, up by 15.0% from 30 June 2019.

Summary of the cash flows and capital expenditure during six month period ended 30 June 2020

For the six months period ended 30 June 2020, Bank's cash and cash equivalents increased by AED 5.8 billion compared to the corresponding period of 2019. This reflects the bank's prudent liquidity and credit risk management and was primarily due to the increase in due from Central bank of AED 3.8 billion and decrease in net loans and advances and Islamic financing receivables of AED 2.1 billion.

During the first six months of year 2020, NBF had incurred AED 30.5 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

- Strong liquidity was maintained with lending to stable resources ratios at 78.5% (2019: 85.9%) and eligible liquid assets ratio (ELAR) at 21.3% (2019: 21.7%), well ahead of all CBUAE minimum requirements.
- The capital adequacy ratio stood at 18.6% (Tier 1 ratio of 17.4% and CET 1 ratio of 13.6%) 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 0.3% compared to 1.7% for the corresponding period in 2019 and return on average equity was 2.1% compared to 13.6% 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 June 2020 was AED 519.9 million, declined by 15.3% compared to the corresponding period of 2019. Operating income from Retail Banking has declined by 10.0%, while Treasury, ALM & others have increased by 9.7% 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.

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.



Adnan Anwar
Chief Financial Officer