

ANNUAL REPORT 2018

Your partner in success



H.H. SHEIKH KHALIFA BIN ZAYED AL NAHYAN
President of the United Arab Emirates



H.H. SHEIKH MOHAMMED BIN RASHID AL MAKTOUM

Vice President and Prime Minister of the United Arab Emirates
and Ruler of Dubai



H.H. SHEIKH HAMAD BIN MOHAMMED AL SHARQI

Member of the Supreme Council
and Ruler of Fujairah

NBF AN INTRODUCTION

NBF has built a strong position by concentrating on its core business and deepening its focus on the customer.



National Bank of Fujairah, the financial partner for business, focused on your personal and professional needs

Incorporated in 1982, National Bank of Fujairah has a long established reputation for excellence in the areas of corporate and commercial banking, trade finance and treasury. More recently, we have expanded our range of products to include a comprehensive suite of personal banking options and Shari'a – compliant services.

NBF's commitment to the economic development of the UAE and home emirate of Fujairah is evident through our support of industries ranging from oil and shipping to services, manufacturing, construction, education and healthcare.

With our solid track record, strong cultural heritage, deep market insight and unwavering focus on service and innovation, we seek to develop lasting relationships with our customers as we help them leverage growth opportunities in the ever-changing marketplace.

As a bank born and bred in the UAE, we at NBF celebrate our cultural heritage by playing a proactive role in the development of the local community.

We believe in cultivating rewarding relationships with our customers by providing them with the very best in financial services, innovation and service delivery.

Similarly, we continuously strive towards the creation of a stimulating environment that allows our people to pursue their personal and professional development.

With our solid track record, strong cultural heritage, deep market insight and unwavering focus on service and innovation, we seek to develop lasting relationships with our customers.

Our Network

HEAD OFFICE

Hamad Bin Abdullah Street, PO Box 887, Fujairah. Tel: 600 565551 Fax: +971 9 222 4516

FUJAIRAH

Fujairah Branch

Hamad Bin Abdullah Street
PO Box 887, Fujairah
Tel: 600 565551
Fax: +971 9 222 9470

Dibba Branch

Sheikh Mohammed Bin
Hamad Street
PO Box 11700, Fujairah
Tel: 600 565551
Fax: +971 9 244 3785

Fujairah City Centre Branch

G012A, Fujairah City Centre
PO Box 887, Fujairah
Tel: +971 9 202 9010
Fax: +971 9 223 7550

Masafi Branch

NBF Building, Masafi
PO Box 11208, Fujairah
Tel: 600 565551
Fax: +971 9 256 3339

Qidfah Branch

NBF Building, Qidfah
PO Box 12002, Fujairah
Tel: 600 565551
Fax +971 9 236 0494

Tawian Branch

NBF Building, Dibba Road
PO Box 30098, Fujairah
Tel: 600 565551
Fax: +971 7 258 4355

Fujairah Free Zone Branch

NBF Building, Fujairah
Khorfakkan Road
PO Box 887, Fujairah
Tel: 600 565551
Fax: +971 9 224 1047

Fujairah Court Branch

Sheikh Khalifa Bin
Zayed Road
Tel: 600 565551

DUBAI

Bur Dubai Branch

Al Fujairah Building
Khalid Bin Waleed Street
PO Box 2979, Dubai
Tel: 600 565551
Fax: +971 4 397 9100

Abu Hail Branch

Al Zarouni Building
Opposite Abu Hail Centre
Abu Hail Main Road
PO Box 125841, Dubai
Tel: 600 565551
Fax: +971 4 221 6831

Jebel Ali Branch

NBF Building, Next to Etisalat
Jebel Ali, PO Box 17676, Dubai
Tel: 600 565551
Fax: +971 4 881 0939

Al Quoz Branch

Shop #14, The Curve Building
Next to Audi Showroom
Sheikh Zayed Road, Al Quoz
PO Box 126565, Dubai
Tel: 600 565551
Fax: +971 4 328 5494

Al Ras Branch

Deira Waterfront, Development
Car Park Building #1
Al Dhagaya Street, Al Ras, Deira
Tel: 600 565551
Fax: +971 4 226 3740

NBF Diamond

Financing Office, Almas Tower
Jumeirah Lake Towers
PO Box 340550, Dubai
Tel: +971 4 507 8362
Fax: +971 4 397 7515

ABU DHABI

Abu Dhabi Branch

Al Ferdous Tower, Al Salam
Street, PO Box 786, Abu Dhabi
Tel: 600 565551
Fax: +971 2 672 8362 / 676 8503

Mussafah Branch

Rashid Al Mazroui Building
Bank Street, Mussafah
Industrial Area
PO Box 786, Abu Dhabi
Tel: 600 565551
Fax: +971 2 555 1215

Al Reef Branch

Electronic Service
Banking Unit (EBSU)
PO Box 131885
Tel: +971 2 612 5791

NBF Corporate Banking Office

Al Badie Building, Capital
District, Near ADNEC Area
PO Box 786, Abu Dhabi
Tel: +971 2 612 5320
Fax: +971 2 445 9929

Al Ain

Al Ain Branch, Sheikh Falah
Bin Zayed, Al Nahyan Building
Near Clock Intersection
Opposite GPO, Main Road
PO Box 88108, Al Ain
Tel: 600 565551
Fax: +971 3 764 8156

SHARJAH

Sharjah Branch

Sparco Building, Sharjah
College, Industrial Area
PO Box 1416, Sharjah
Tel: 600 565551
Fax: +971 6 525 5887

NBF Subsidiaries

NBF Capital Ltd.

(Regulated by the DFSA)
3rd Floor, Office No.303
Precinct Building 4, DIFC
PO Box 128217, Dubai
Tel: +971 4 507 8517

NBF Financial Services FZC

Fujairah Free Zone
PO Box 5230, Fujairah
Tel: +971 9 202 9231
Fax: +971 9 228 2979

NBF Markets, (Cayman)

Limited, 4th Floor, Harbour
Place, 103 South Church
Street, PO Box 10240
Grand Cayman KY1-1002
Cayman Islands



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STRATEGIC REPORT

As a bank born and bred in the UAE, we at NBF celebrate our cultural heritage by playing a proactive role in the development of the local community.

Who We Are

NBF has a proud 36-year history of providing outstanding service to our customers and generating value for wider society.

Our Vision

The financial partner for business, focused on your personal and professional needs.

Our Mission

- › To provide our customers with exceptional financial services
- › To develop a strong sense of partnership through service and innovation
- › To offer a stimulating working environment where individuals can tap their potential to achieve new heights
- › To operate to the highest standard of professionalism, while contributing to the growth and advancement of the communities in which we work

Our Values



P

PASSION AND COMMITMENT

Be ready to go the extra mile for the bank and for each other



R

RESPECT

Have mutual trust and understanding, appreciate and seek the views of others



I

INTEGRITY

Be honest and transparent



D

DEDICATION TO TEAM WORK

Work toward shared, common goals. Build effective teams across organisational boundaries



E

EXCELLENCE IN SERVICE

Make delivering an exceptional customer service at the heart of everything we do

NBF at a Glance

We offer a full suite of banking services, including treasury and trade finance, and corporate and commercial banking. We also offer a growing range of personal banking options and Shari'a – compliant services.



Established

1982



Branches

18



Subsidiaries

3



Employees

762



Customers

33,300



Credit rating

BBB+/A-



Nationalities

40



Emiratisation ratio

41%



Regulatory relationships

7



Female workforce

40%



Operating income

AED1.6bn

(2017: AED1.4bn)



Operating profit

AED1.1bn

(2017: AED913.6m)

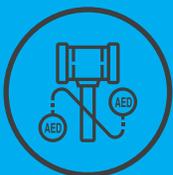


Net profit

AED615.3m

(2017: AED471.9m)

Key Performance Metrics



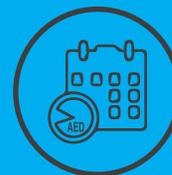
12.3%

Return on average equity



1.6%

Return on average assets



20%

Dividend payout

Year-on-year Industry Accolades

2018

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

Best Customer Service – Corporate and Investment Banking – Banker Middle East UAE Product Awards

Best Treasury Management – Banker Middle East UAE Product Awards

Best SME Trade Finance Offering – Banker Middle East UAE Awards

Best Emirati Ladies Proposition – Banker Middle East UAE Awards

Best Priority Banking Service – Banker Middle East UAE Awards

Best Islamic Window UAE – Islamic Business & Finance, CPI

Best Innovator – Commercial Banking TahawulTech Future Enterprise Awards 2018

Recognised for **NBF online banking initiatives** – at the Asian Transaction Banking Awards 2018

Abu Dhabi Securities Exchange (ADX) Award for Outstanding Performance in disclosing half year financial results

Best Nationalization Program – Winner – Gulf Employee Experience Awards 2018

HR Team of the Year – Winner – Gulf Employee Experience Awards 2018

Best Employee Experience – Gulf Employee Experience Awards 2018

HR Team of the Year – Winner – 2018 MENA HR Excellence Awards

Received the **Dubai Chamber CSR Label** in recognition of our strong commitment to developing a sustainable environment and upholding best practices

Ranked amongst the top 100 most successful businesses across GCC in the “Top CEO Awards” Trends magazine in association with Insead Business School and Hawkamah

Ranked 18th in the “Forbes UAE 100”, where NBF was amongst the Top 50 public companies in the UAE

2017

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

Best Customer Service Corporate and Investment Banking – Banker Middle East UAE Product Awards

Best Corporate Advisory Service – Banker Middle East UAE Product Awards

Best Treasury Management – Banker Middle East UAE Product Awards

Best SME Internet Banking Service – Banker Middle East UAE Awards

Best SME Trade Finance Offering – Banker Middle East UAE Awards

Best Islamic Window UAE – Islamic Business and Finance, CPI

Shari’a – compliant Window 2017 – The Banker’s Islamic Bank of the Year Awards

Ranked as the 4th and the highest ranked UAE publicly listed company amongst the most successful listed businesses across the GCC in the Top CEO Awards organised by Trends magazine in association with Insead Business School and Hawkamah

Outstanding Employer in the Middle East Award by Korn Ferry Employee Engagement

CFO of the Year Award in the banking and finance category – The CFO Middle East Awards 2017

Abu Dhabi Securities Exchange (ADX) Award for Outstanding Performance in disclosing half year financial results

All-Rounder Credit Card of the Year voted by Yalla Compare Banking Awards H1 2017

HR Team of the Year – Winner – Gulf Employee Experience Awards 2017

Korn Ferry Employee Engagement Awards Winner Middle East 2017

HR Team of the Year – Winner – 2017 MENA HR Excellence Awards

Mark of Excellence for Nationalisation Initiative of the Year & HR Team of the Year 2017 HR Excellence Awards

Finalist Daman Award for Corporate Health and Wellness Initiative 2017

2016

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

Bankers’ Choice Award – The Asian Banker, Middle East and Africa

Best New Islamic Window UAE – Islamic Business and Finance Awards

Best Customer Service-Corporate and Investment Banking – Banker Middle East UAE Product Awards

Best Corporate Advisory Service – Banker Middle East UAE Product Awards

Best Cash Management Banker Middle East UAE Product Awards

Best Treasury Management – Banker Middle East UAE Product Awards

Best Innovation in Employee Engagement – HR Excellence Awards 2016

Mark of Excellence for Nationalisation initiatives – Middle East HR Excellence Awards

Best Employer Brand on LinkedIn – LinkedIn MENA Talent Awards

2015

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

Best Customer Experience Team (NBF Capital) – Gulf Customer Experience Awards

Best Local Bank UAE – EMEA Finance Middle East Banking Awards

Best Corporate Advisory Service – Banker Middle East UAE Product Awards

Best SME Customer Service – Banker Middle East UAE Product Awards

Best SME Trade Finance Offering – Banker Middle East UAE Product Awards

Best SME Internet Banking Service – Banker Middle East UAE Product Awards

Best Treasury Management – Banker Middle East UAE Product Awards

2015 CIO 100 Awards – Computer News Middle East (CNME)

Upholding the highest standards of transparency and governance – Hawkamah Institute of Corporate Governance

2014

Best Trade Finance Bank – Trade and Export Excellence Awards

Best Domestic Commercial Bank – Banker Middle East UAE Industry Awards

Best Treasury Management – Banker Middle East UAE Product Awards

Best SME Trade Finance Offering – Banker Middle East UAE Product Awards

Best Customer Service Corporate and Investment Banking – Banker Middle East UAE Product Awards

Chairman's Statement

2018 was a record year for NBF. Despite relatively low levels of regional economic growth and periods of volatility for global stocks, we were able over the course of the year to record strong growth.

We increased operating profit by 15.2 percent to AED1.1 billion, the highest in our 36-year history. Likewise, net profit increased by 30.4 percent to AED615.3 million.

This performance was testament to the strength of our business model. Additionally, NBF's capital adequacy and liquidity positions remained strong.

As part of our commitment to supporting our people, in 2018 we worked hard to promote a culture that encouraged the right corporate behaviour and created exciting opportunities for our people to grow.

The Board believes in ongoing investment in our brand to support future growth and to preserve significant capital strength. In 2019, we will continue to tap new business opportunities and to support the overall development of the UAE economy.

Macro Factors

In 2018, we saw significant global uncertainty caused by factors such as weak Chinese economic data, rising international trade tensions, protracted Brexit negotiations and weaker growth in key emerging economies. Overall, international liquidity became tighter, culminating in the IMF's third quarter statement that global economic growth had plateaued.

However, against this backdrop NBF performed strongly. Our balance sheet remained robust, our liquidity was strong and our capital adequacy solid. I am proud of this performance because it evidences that NBF is resilient and sufficiently agile to be able to respond quickly to rapidly changing economic conditions.

Over the coming year, it is critical we remain focused on strengthening the long established bonds of trust we enjoy with our customers and to managing emerging risks.

We increased operating profit by 15.2 percent to AED1.1 billion, the highest in our 36-year history. Likewise, net profit increased by 30.4 percent to AED615.3 million.



Return on EQUITY

 **12.3 PERCENT**

BOOK VALUE per share

 **AED 2.81**

EARNINGS per share

 **AED 0.33**

DIVIDEND

 **20 PERCENT**



Awards and Accolades

We were honoured with a number of prestigious industry awards and endorsements in 2018, highlighting the enduring quality of our customer focus. Notably, at the Banker ME Industry Awards, NBF received the “Best Corporate Bank” award for the fourth consecutive year, the “Best Commercial Bank” award for the seventh consecutive year and the “Best Treasury Management” award. We also won the “Best Islamic Window” award for a third year in a row, “Best Emirati Ladies Proposition” award, “Best Nationalisation Programme” award and “Best Priority Banking Service” award.

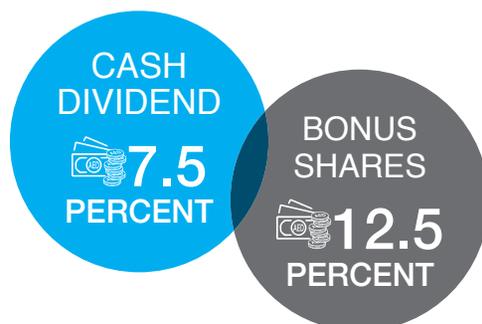
The bank’s sound fundamentals were reflected in strong ratings. Moody’s maintained NBF’s investment grade rating of Baa1 / Prime-2 for deposits, and A3 for counterparty risk assessment. Standard & Poor upheld our BBB+ / A-2 rating. Capital Intelligence re-affirmed NBF’s financial strength outlook as ‘stable’. Our Long Term Foreign Currency Rating (FCR) has been maintained at ‘A-’ since 2008, reflecting our prudent and proactive risk management practice.

We also won the “Best Islamic Window” award for a third year in a row, “Best Emirati Ladies Proposition” award, “Best Nationalisation Programme” award and “Best Priority Banking Service” award.

Shareholders' Returns

It is important we consistently deliver value to shareholders. I am pleased that we delivered return on equity of 12.3 percent in 2018, compared to 10 percent in 2017. Book value per share was AED2.81, compared to AED2.85 the year before. The marginally lower book value per share reflected the increase in paid-up capital shares in 2018. Earnings per share were AED0.33, compared to AED0.24 in 2017.

As a result of our strong performance in 2018, I am pleased to recommend a dividend of 20 percent compared to 15 percent in 2017. The dividend will be in the form of cash and bonus shares as follows:



Looking Inwards, Building Outwards

We are proud of NBF's longstanding history of supporting our customers and providing world-class levels of service. We will ensure in future our customers remain our first priority in everything we do.

The UAE continues to perform strongly relative to other regional economies thanks to the efforts it has made to diversify economies away from reliance on hydrocarbons. In 2018, the Global Competitiveness Centre of the International Institute for Administrative Development ranked the UAE as the most competitive economy in the Arabian Gulf region, and the seventh most competitive in

the world. Likewise, the United Nations named the UAE the thirteenth most promising investment destination in the world.

2019 is the "Year of Tolerance" in the UAE and NBF will continue to promote tolerance in everything we do. We are excited by UAE government initiatives for 2019 such as the three-year AED50 billion fund aimed at stimulating entrepreneurial and SME businesses throughout the nation. We believe the fund will be effective in increasing levels of overseas investment in the UAE and creating job opportunities. We also look forward to seeing preparations for World Expo 2020 ramp up.



NBF is immensely proud to play an important role in the development of the emirate of Fujairah and to support the wider UAE economy. We are steadfast in our support for our visionary leaders: President of the UAE and Ruler of Abu Dhabi HH Sheikh Khalifa Bin Zayed Al Nahyan, Vice President and Prime Minister of the UAE and Ruler of Dubai HH Sheikh Mohammed Bin Rashid Al Maktoum, and Member of the Supreme Council and Ruler of Fujairah HH Sheikh Hamad Bin Mohammed Al Sharqi.

I would like to thank our clients and our shareholders for their continued trust and support. On behalf of the Board, I would also like to thank management and all staff for their hard work and dedication.

Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman

11 Feb 2019

DIRECTORS' REPORT

We continue to focus on true value creation, connecting customers to opportunities and ensuring the long-term sustainability of their business models.



Deputy Chairman's Statement

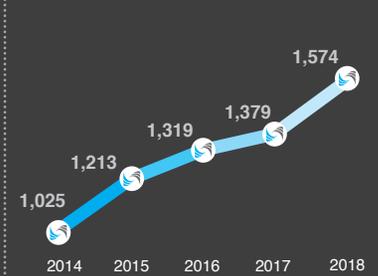
NBF performed strongly in 2018. This was the result of a combination of factors, including sound risk management and excellent customer engagement.

Five-Year Performance Scorecard

Assets (AED Billion)



Operating Income (AED Million)



Shareholders' Equity
(AED Billion)



Operating Profit (AED Million)



**Loans and Advances
and Islamic Financing
Receivables** (AED Billion)



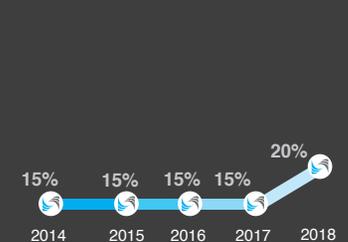
Net Profit (AED Million)



**Customer Deposits and Islamic
Customer Deposits** (AED Billion)



Dividend Payout Ratio (%)



Financial Performance

In 2018, NBF achieved record operating and net profit thanks to strong core business performance.

	2018 (AED Million)	Growth (%)
Operating profit	1,052.1	15.2%
Operating income	1,573.8	14.2%
Net interest income and net income from Islamic financing and investment activities	1,086.7	18.4%
Foreign exchange and derivatives income	137.3	36.2%
(Loss) / income from investments and Islamic Instruments	-5.0	-126.0%
Net fees and commission income	308.7	-0.9%
Operating expense	521.7	12.2%
Net impairment losses	436.8	-1.1%
Profit for the year	615.3	30.4%
Loans and advances and Islamic financing receivables	26,202.4	8.9%
Customer deposits and Islamic customer deposits	30,472.5	9.4%
Total assets	39,783.3	8.5%
Recoveries	146.2	78.3%
Cost-to-income ratio	33.2%	-0.6%
Total provisions coverage ratio	102.0%	12.5%
Non-performing loans ratio	5.1%	-0.4%
Return on average equity	12.0%	2.4%
Return on average assets	1.5%	0.3%

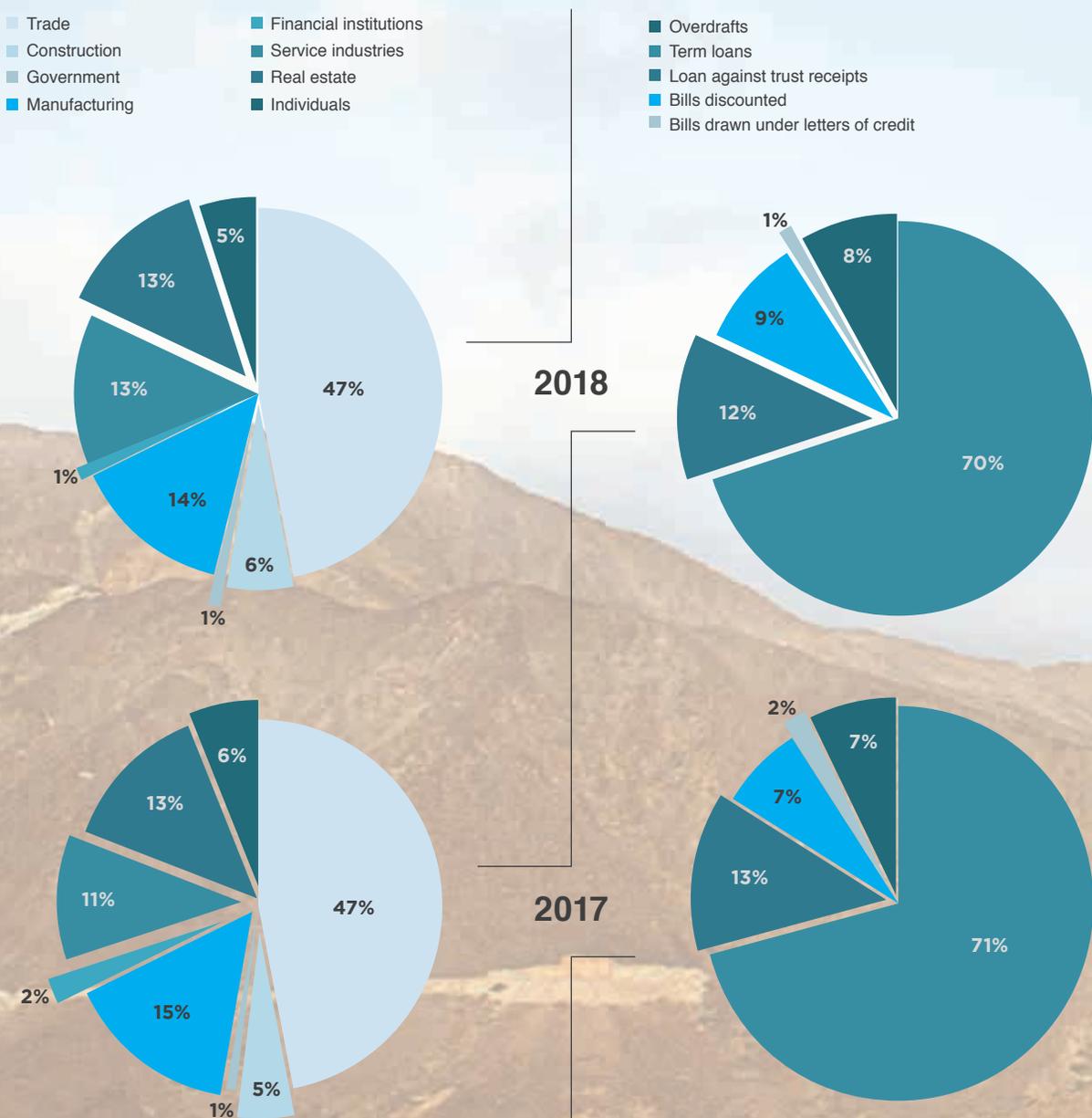
Risk Management, Internal Control and Compliance

Our strategy is predicated on effective risk management, robust internal controls and compliance best practice. We constantly monitor sources of financial and non-financial risk in order to respond quickly and to protect our customers' investments. We operate to the highest protocols of international risk management best practices.

We seek constantly to expand our customer base in order to reduce systemic credit concentrations.

Our approach to risk is specific to the various products we offer and also to the markets and the sectors in which our customers operate.

Loans and Advances



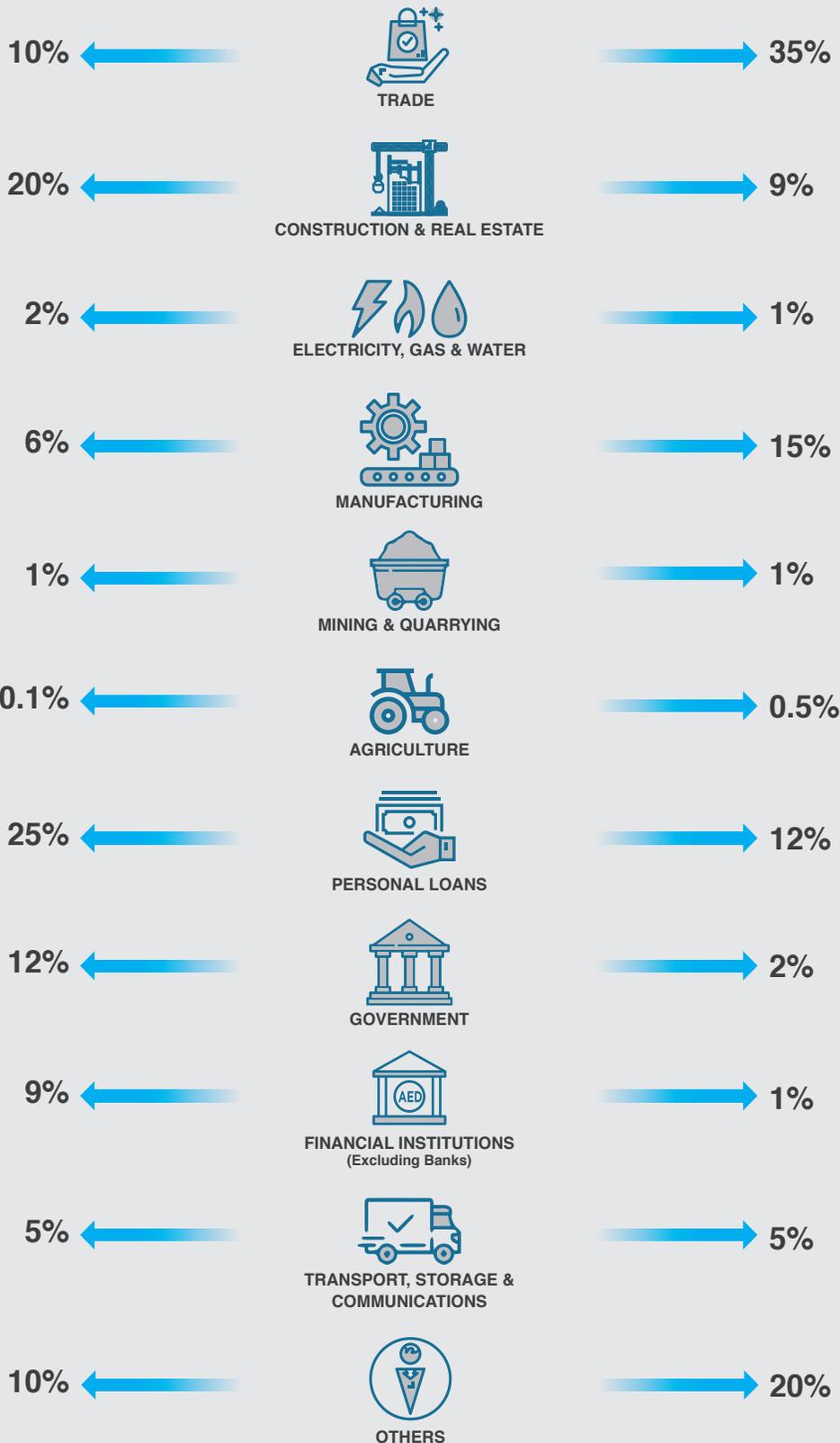
NBF's Sector Specific Expertise Sets us Apart in the Market.

Loans & Advances (Industry)

(31 December 2018)

Loans & Advances (NBF)

(31 December 2018)



In 2018, a review conducted by our Risk Management department identified the need for enhanced credit monitoring activities within the Bank. We responded by establishing the Credit Monitoring Unit to centralise our credit monitoring activities, thereby significantly improving efficiency and consistency.

Our financial stability is underpinned by maintenance of strong levels of capital adequacy and liquidity relative both to risk and our growth strategy. Our liquidity levels were good in 2018.

NBF is predominantly deposit funded and the ratio of deposits to total assets stood at

76.6 percent (2018)

76.0 percent (2017)

The ratio of advances to deposits stood at

86.0 percent (2018)

86.4 percent (2017)

Our balance sheet was well diversified and our ratio of liquid assets remained one of the highest in the industry

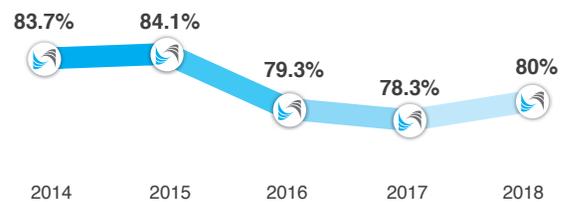
21.9 percent (2018)

24.1 percent (2017)

We continue to monitor our liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) daily. We completed the year with NSFR and LCR at 105 percent (2017: 107 percent) and 319 percent (2017: 270 percent), respectively.

NBF maintains prudent market risk limits and its trades are executed predominantly to support customer activity. NBF's

Profit Retention ratio (%)



debt investment portfolio operated with a core principle of liquidity management. It comprised 83.2 percent of our debt securities portfolio rated “BBB+” and above, compared to 84.5 percent in 2017. NBF's equity investment portfolio is being developed as part of our revenue and risk diversification strategy.

In 2018, our capital adequacy ratio was 15.2 percent, with a tier 1 ratio of 14.1 percent and common equity ratio of 12.6 percent. The Board approved a plan to strengthen the Group's capital structure in line with Basel III requirements to support our growth strategy.

NBF is committed to industry best practice compliance and anti-money laundering standards, and to the protection of the UAE's financial system. We have segregated our compliance function from operational risk management to further enhance our control mechanism.

Additionally, we undertook an independent review of our compliance capabilities and systems, and created a strategy to ensure compliance with the very highest standards of international best practice. We are pleased to note that our agreed strategies have been substantially completed. To identify areas for ongoing improvement and supervision, we established a dedicated Compliance Committee, which has senior executive representatives from all departments.

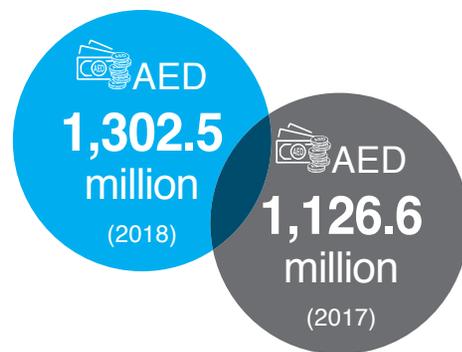


Segment Performance

NBF is proud of both the strong partnerships we enjoy with our customers and the quality of the services we offer. In 2018, we established a dedicated Customer Experience team to work across the business to further enhance customer experience. We also progressed our digitisation services by introducing robotics and automating some end-to-end processes. Additionally, we began work to use advanced and predictive analytics to better serve customers.

Corporate and Institutional Banking (C&I) segments

Operating income from corporate and institutional banking



This included income from foreign exchange and derivatives of AED111.9 million (2017: AED83.7 million) and advisory services of AED3.6 million (2017: AED9 million).

We rebranded our popular NBF Corporate Days as the NBF Knowledge Series, broadening the scope of networking opportunities in order to update clients on the trends that shape both, our industry and the markets. The 2018 Knowledge Series brought together 700 UAE business leaders and analysts at a series of one-day networking sessions in Fujairah, Abu Dhabi and Dubai. We invited industry experts from Thomson Reuters, Gartner and KPMG to speak at the events about the global and regional macroeconomic landscape, and to give insights on currency markets, interest rates and statutory regulation changes in the UAE. Areas of trade and digital transformation were also discussed.

We also had a successful NBF Gen-Next event for the third consecutive year, helping to guide the next generation's business leaders.

Corporate and Institutional Banking

NBF is highly regarded for its customer-focused corporate and institutional banking expertise. In 2018, NBF's corporate and institutional banking segments represented 57.1 percent of overall group operating income, compared to 55.8 percent in 2017. Operating income stood at AED899.4 million, compared to AED769.6 million a year previously. Additionally, assets reached AED23 billion, an increase of 8.2 percent on 2017, while liabilities increased by 12.7 percent to AED27.4 billion. This growth reflected our strategy of diversifying sources of business. Net profit increased by 19.2 percent to AED289.6 million.

A number of initiatives were undertaken which contributed to good results:

- We enhanced focus on cash management products and services which helped in increasing average current and saving account (CASA) balance proportion to total deposits, from 29.7 percent in 2017 to 31.2 percent and improving interest margin.
- We partnered with Thomson Reuters to provide customers with an online VAT portal to offer guidance on matters relating to VAT.
- We enhanced focus on capital efficient products, particularly treasury products.
- We deepened our diamond expertise in recognition of the growing importance of this segment.

Business Banking

NBF's business banking operation performed strongly in 2018, contributing 18.3 percent of overall group operating income. Operating income increased 8.8 percent to AED287.6 million. The segment's assets totalled AED3.3 billion in 2018, up 2.4 percent from 2017. Liabilities rose to AED3.3 billion from AED3.1 billion a year previously, thanks to enhanced focus on cash management and product cross-selling. Credit losses were reduced by 61.1 percent to AED48.9 million in 2018, from AED125.7 million in 2017. As a result, net profit grew 661.2 percent to AED106.3 million from AED14.0 million in 2017.

We also partnered with Thomson Reuters to offer bespoke funding solutions to SMEs, through the Thomson Reuters Accelerate SME Platform. The initiative has enhanced our ability to work closely with SMEs throughout the UAE, and to better understand their banking needs.

Our Business Banking segment had cash collaterals / pledged deposits amounting to AED967.4 million in 2018, which represented 30.4 percent of the overall credit portfolio.

Retail Banking

We continued our focus on expanding retail business across the UAE in 2018. The segment achieved annual operating income growth of 21.8 percent, to AED137.0 million. Shari'a – compliant retail banking products and services also helped to grow our customer base. Overall performance was impacted by adoption of a new accounting provisioning standard, IFRS 9. The credit losses for the year were AED36.2 million compared to AED19.3 million in 2017. The segment reported a profit of AED1.8 million compared to AED10.2 million in 2017.

Retail banking assets grew by 21.6 percent to AED2.9 billion and liabilities were maintained at AED2.7 billion. Costs increased by 19.3 percent to AED99.1 million, reflecting an enhanced focus on sales, an expanded branch network and investments in digitalisation.

Treasury, Investments and Asset, Liability Management (ALM) and Others

Treasury continued to perform strongly in 2018. Foreign exchange and derivatives income increased by 36.2 percent to AED137.3 million, compared to AED100.8 million in 2017. Enhanced focus on asset and liability management during the year resulted in net interest and net income from Islamic financing and investment activities increasing by 18.4 percent. Treasury and ALM contributed 15.9 percent to overall group income, compared to 16.8 percent in 2017. Our investments portfolio, principally representing investment grade debt securities, increased by 41.6 percent to AED2.7 billion.



NBF Islamic grew significantly in 2018, constituting 11.5 percent of overall group assets and 13.8 percent of group deposits. NBF Islamic accounted for 7.3 percent and 14.8 percent of overall operating income and profit, respectively.

Over the course of the year, NBF Islamic grew its asset base by 16.2 percent compared to the previous year, to AED4.6 billion. Operating income increased 56.5 percent to AED115 million. Total Islamic financing receivables and Islamic customer deposits reached AED3.1 billion (2017: AED3.1 billion) and AED4.2 billion (2017: AED3.7 billion), respectively. In 2018, we launched our Mudaraba products to further complement our core offering for both retail and corporate customers.



Strategic Initiatives

In 2018, NBF continued to seek opportunities to diversify the business. We opened a representative office in Belgium's diamond district in Antwerp, supporting Dubai's aspiration to become a global diamond business hub. Additionally, we began the process of upgrading the licence of NBF Capital Limited, our DIFC based subsidiary, from category 4 to category 3A, to broaden the business by including funds and collective investment solutions.

A number of new investment propositions are being made to serve the needs for high net worth and priority customers.

As part of our strategy to enhance customer services, in 2018 we undertook a number of key initiatives:



We upgraded our online banking platform for corporate and retail customers.



We opened a dedicated VVIP lounge in our Fujairah premises to better serve high net worth and priority banking clients.



Our Abu Dhabi and Mussafah branches were moved to new locations to improve accessibility to our customers.



We began work to open a new branch in Dubai South in 2019 in good time for Expo 2020.



Mobile ATMs to provide flexible service to the customers.

We also made strong progress against our board-approved capital plan in 2018. In September, AED500 million tier 1 capital was converted into paid-up share capital. This augmented the Group's common equity tier 1 (CET1) capital base in line with growth prospects and Central Bank of the United Arab Emirates (CBUAE) Basel III regulations. NBF also repaid tier 2 capital of AED400 million in November 2018.

Furthermore, we commenced an issue of new Basel III-compliant additional tier 1 (AT1) capital.

NBF and the Community

We take our responsibility to wider society seriously and look to lead by example. In 2018, our corporate social responsibility (CSR) work was broad and designed to support the sustainability goals of both Fujairah and the UAE.

Highlights included our second NBF Run, which saw more than 1,800 runners compete over 3km, 5km, 10km and 11km races, set against the backdrop of our home emirate's beautiful mountain scenery.

In October, we held a Breast Cancer Awareness day in partnership with the Well Woman Clinic during which female employees were encouraged to wear pink to raise awareness of the condition and also to demonstrate the bank's support for International Breast Cancer Awareness Month.

Other initiatives included the 'Plant with Us' programme, in which employees, their families and members of the community were invited to participate and support Fujairah's environmental sustainability initiatives and people of determination through the successful partnership with 'Enable'.

As part of a wider health initiative intended to promote healthy lifestyle choices, employees were also encouraged to participate in a month-long Dubai Fitness Challenge in which we achieved second position.

A comprehensive Sustainability and CSR Report highlighting our achievements and strategy is available on our website: www.nbf.ae

I would like to thank all NBF customers for their support and assure them of our ongoing commitment to their success.

Easa Saleh Al Gurg, KCVO, CBE

Deputy Chairman

11 February 2019

CORPORATE GOVERNANCE REPORT

Upholding highest ethical governance standards and investor relations continue to be the utmost priority for NBF.



Introduction

NBF ('The Bank') is committed to upholding the highest ethical and corporate governance standards. Our approach to corporate governance reinforces our business model and is crucial to maintaining the trust of our customers and society has in us.

The Board of Directors' primary responsibility is to provide effective governance over the bank's affairs for the benefit of shareholders, and to balance the interests of diverse stakeholders, including investors, customers, employees, suppliers, regulators, government and local communities.

Our corporate governance strategy ensures the highest levels of transparency and accountability.

Who We Are

NBF is a regional financial services provider with a focus on the United Arab Emirates. We provide a wide range of services, each of which complies with regulatory requirements. Our shares are listed on the Abu Dhabi Securities Exchange (ADX) and our principal regulators are the Central Bank of the United Arab Emirates and Securities and Commodities Authority (SCA). NBF subsidiaries, namely NBF Financial Services FZC, NBF Capital Limited and NBF Markets (Cayman) Limited, along with NBF Belgium's representative office, are supervised by regulators in those regions.

Overall Structure of Governance

We continuously review our corporate governance practices in light of changes to our strategy or changes within the external business environment.

Our Formal Disclosure Policy is well established and certain disclosures are included as notes within the Annual Consolidated Financial Statements. Further information on our governance and risk management framework can be referred to as follows:

- Note 2: Details of our compliance with all applicable laws and regulations
- Note 4: Accounting policies
- Note 5: Financial Risk Management practices

The corporate and governance documents accessible through our website are:

- The Memorandum of Association and Articles of Association
- The Corporate Governance Framework of the Board of Directors
- The Code of Conduct and Whistle Blowing Policy
- The Shari'a Governance Framework (SGF)
- Enhanced disclosures relating to investor relations and corporate governance

Organisation

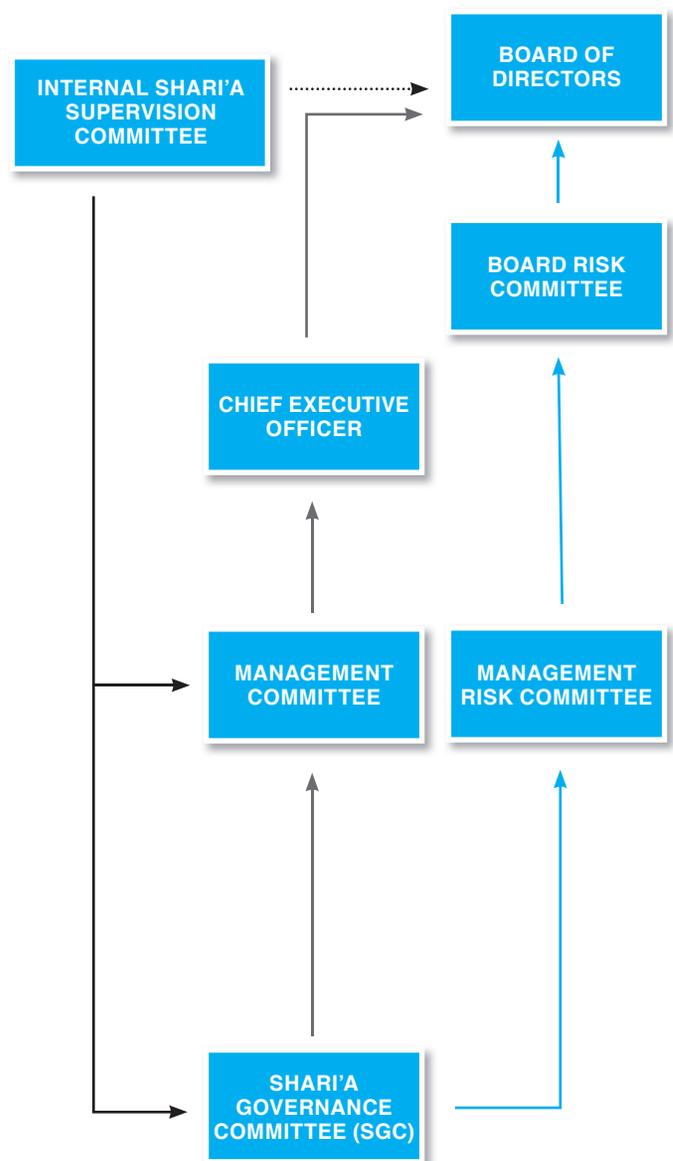
Our governance structure is robust. At executive level, the Management Committee and Management Risk Committee oversee and provide strategic direction to various other committees in the bank. They also make recommendations to the Board.



Islamic Banking Governance

We have established a Shari’a Governance Framework, a Shari’a Supervisory Board and a Shari’a audit process to ensure our Shari’a governance practices are world class. We maintain independent records and accounts for NBF Islamic.

NBF Islamic – Shari’a Governance Structure



- Shari’a – Compliance Reporting
- Risk Reporting
- Business Performance Reporting

In the name of Allah, The Most Merciful, The All Beneficent

NBF Islamic, the Islamic Banking Window of National Bank of Fujairah PJSC (the Bank)

INTERNAL SHARI'A SUPERVISION COMMITTEE REPORT

For the Year Ended 31 December 2018

The Internal Shari'a Supervision Committee has approved and supervised contracts and transactions, in accordance with the principles of Islamic Shari'a, entered into by the Bank for the year ended 31 December 2018. The Internal Shari'a Supervision Committee has performed its independent supervision to enable it to express an opinion on the bank's compliance with the provisions and principles of Islamic Shari'a, as well as with fatwas, resolutions and specific guidelines that were issued by it from time to time.

The management of the Bank is responsible for compliance with laws and principles of Islamic Shari'a in all Islamic banking transactions. The Internal Shari'a Supervision Committee's responsibility is limited to expressing an independent opinion based on its monitoring of the bank's operations.

The Internal Shari'a Supervision Committee's annual audit and monitoring included inspecting documentation and procedures of the Islamic Banking Service undertaken by the Bank on the basis of sample testing of all types of transactions.

The Internal Shari'a Supervision Committee planned to execute the audit and monitoring procedures to obtain all information and explanations deemed necessary to review sufficient evidence that Islamic banking did not contravene the principles of Islamic Shari'a and any resolutions passed by the Higher Shari'a Authority ("HSA") of the Central Bank of the UAE ("CBUAE").

Based on its monitoring and supervision, the Internal Shari'a Supervision Committee declares the following:

- a. Contracts and transactions executed, and processes followed by the bank during the year ended 31 December 2018, were conducted in accordance with the principles of Islamic Shari'a and in accordance with the HSA Resolution No.: 18/3/2018 "Regarding the Adoption of AAOIFI Shari'a standards".
- b. All amounts required to be channeled to charity were duly donated to charity organizations approved by the Internal Shari'a Supervision Committee.
- c. The allocation of profits and charging of losses, costs and expenses related to investment accounts conforms to the basis that has been approved by us in accordance with Shari'a provisions and principles.

Allah Almighty knows best.

Dated: **11 February 2019**

Approved By: **National Bank of Fujairah, Internal Shari'a Supervision Committee**

Dr. Mohamed Ali Elgari (Chairman)



Dr. Mohd Daud Bakar (Executive Member)



Dr. Muhammad Amin Ali Qattan (Member)

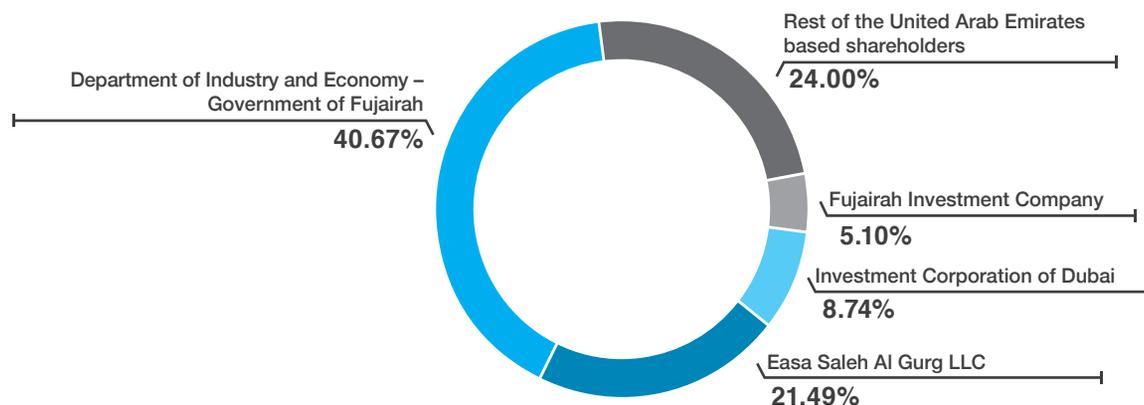


Dr. Osama Al-Dereai (Member)



Shareholders

As at 31 December 2018, NBF's shareholders were:



2018: During the year, 17,542,474 shares representing 1.07 percent of the bank's shares were traded (2017: 3,878,687 shares representing 0.28 percent of the bank's shares were traded). The market capitalisation of the bank was AED7.9 billion (2017: AED6.8 billion).

The Board

Board of Directors	NBF, "The Bank"
His Highness Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	Chairman
His Excellency Easa Saleh Al Gurg, KCVO, CBE	Deputy Chairman
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	Member
Mr. Hussain Mirza Al Sayegh	Member
Dr. Sulaiman Mousa Al Jassim	Member
Mr. Saif Sultan Al Salami	Member
Mr. Mohamed Obaid Bin Majed Al Aleeli	Member
Mr. Abdulla Fareed Al Gurg	Member
Mr. Ahmed Saeed Al Raqbani	Member

Board Responsibilities

The Board approves and oversees NBF strategy, key policies, risk appetite, senior appointments and senior executive remuneration.

The functions and responsibilities of our Board are clearly defined in our Corporate Governance Framework Manual.

Key elements of the Board's role and responsibilities are:



Culture and Reputation

- Reviewing the performance of the CEO and senior management



Strategy

- Setting the Vision and Mission of the NBF Group
- Approving the annual Strategic plan



Performance

- Review of the performance of the Group against financial and other plans



External Reporting

- Approval of the bank's Financial Regulatory Reporting
- Risk Management and Compliance
- Monitoring risk management outcomes

Risk Appetite and Culture

Our vigorous risk management system is fundamental to our long term success. The Bank manages various risk elements in line with Basel methodologies and best practices through a Three Lines of Defence risk philosophy.

We have established a comprehensive and robust enterprise-wide risk management and governance framework.

Our Risk Appetite Statement is approved by the Board of Directors and reviewed annually. It provides qualitative and quantitative direction in terms of risk management, and forms the benchmark against which we measure risk management performance.

A Risk Culture Survey of staff is conducted every two years to better understand, measure and strengthen risk management within the bank.

Capital and Liquidity

Our financial stability is underpinned by strong levels of capital adequacy and liquidity, relative to risk profile and growth. The group is predominantly deposit funded and its deposits to total assets ratio stood at 76.6 percent in 2018. Our advances to deposits ratio stood at 86.4 percent.

Our balance sheet is well-diversified and our eligible liquid assets ratio at the end of 2018 was 21.9 percent.

We monitor our liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). At 31 December 2018, the Group's NSFR and LCR stood at 105 percent (2017: 107 percent) and 319 percent (2017: 270 percent) respectively.

NBF maintains prudent market risk limits and our trading activities are executed predominantly to support customer activities.

We ended the year with a capital adequacy ratio of 15.2 percent, a tier 1 ratio of 14.1 percent and common equity ratio of 12.6 percent.

NBF has begun the process of issuing new Basel III compliant additional tier 1 capital.

Regulatory Compliance

NBF is committed to the highest compliance and anti-money laundering standards, and to the protection of the UAE financial system.

Our anti-money laundering policies, procedures and systems are in line with the latest recommendations from the Financial Action Task Force (FATF), the international anti-money laundering regulatory body, UAE Federal Laws and guidelines from Central Bank of the UAE.

We are also closely aligned with the requirements of the National Electronic Security Agency (NESAs).

At NBF it is compulsory for all staff to regularly complete training programs relating to Compliance, Ethics and Information Security.



Financial Results

Performance and risk indicators (Percentage)

2018 2017

1.6% || 1.3%

RETURN ON AVERAGE ASSETS

12.3% || 10.0%

RETURN ON AVERAGE EQUITY

33.2% || 33.7%

COST TO INCOME RATIO

15.2% || 17.5%

CAPITAL ADEQUACY RATIO (CAR)

14.1% || 15.1%

TIER 1 RATIO

86.0% || 86.4%

LOANS TO DEPOSITS RATIO

21.9% || 24.1%

ELIGIBLE LIQUID ASSET RATIO

Board & Board Committees

In 2018, the Board of Directors and sub-committees met regularly.

The table below provides details of membership and meetings of the Board and Board Committees held in 2018.

Board and Board Committees' Membership and Meetings:

Name	Expiration of Current Term of Office	Board	Board Risk Committee	Board Audit Committee	Board Nomination & Remuneration Committee
Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	2020	C			C
Easa Saleh Al Gurg, KCVO, CBE	2020	DC		C	M
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	2020	M	M	M	
Hussain Mirza Al Sayegh	2020	M		M	
Sulaiman Mousa Al Jassim	2020	M		M	
Saif Sultan Al Salami	2020	M	C	M	M
Mohamed Obaid Bin Majed Al Aleeli	2020	M	M	M	
Abdulla Fareed Al Gurg	2020	M	M	M	
Ahmed Saeed Al Raqbani	2020	M	M	M	
Sekhar T N	July 2019*		*	*	
Vince Cook	CEO	I	I	I	
Adnan Anwar	CFO	I	I	I	
Balaji Krishnamurthy	COO	I		I	
Justin Morgan-Cooper	CRO		I		
Kevin Taylor	HOIA			I	
Total no. of meetings		6	4	4	4
Approvals by circulation		2	1	-	-

C: Chairman | DC: Deputy Chairman | M: Member | * Independent Professional Member (renewed annually) | I: Invitees

All principal members of the management team present their businesses' performance, related risk and strategy to the Board annually.

The Board approves credit and investment proposals above defined thresholds. During 2018, there were 142 credit applications forwarded to the Board for approval.

Appointment, Retirement and Re-Election

The Board of Directors was elected on 26 March 2017, for a term of three years.

The chairman, deputy chairman and all directors are non-executive directors.

Directors must declare interests and directorships on an annual basis.

Directors' Interests in the NBF Shares:

Name (Board of Directors)	Shareholding at 01 January 2018	Shareholding at 31 December 2018	Change
Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	-	-	-
Easa Saleh Al Gurg, KCVO, CBE	-	-	-
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	-	-	-
Hussain Mirza Al Sayegh	-	-	-
Sulaiman Mousa Al Jassim	1,305,524	1,403,438	7.5%
Saif Sultan Al Salami	-	-	-
Mohamed Obaid Bin Majed Al Aleeli	332,741	357,696	7.5%
Abdulla Fareed Al Gurg	-	-	-
Ahmed Saeed Al Raqbani	-	-	-

Board Performance

The Board regularly reviews the financial performance of the bank, its individual businesses and support areas. It is also focused on setting the bank's risk appetite, policies, enterprise governance, risk and control framework, and three-year business strategy.

The Board and Board's Nomination and Remuneration Committee conducts an annual review of the Board's performance against a set of clear guidelines, with the report tendered to the full Board for its consideration.

Board Committees

The Board of Directors is responsible for approving and overseeing NBF's risk management framework. The Board has established risk committees to enhance oversight and each committee has a formal Board approved Charter.

The Risk Committee consists of four Board members and an independent professional. It oversees the risks inherent to group business, control processes, risk management and compliance. The CEO, Chief Risk Officer (CRO) and Chief Financial Officer (CFO) are invitees. The responsibilities of the Committee include, but are not limited to the following:

- Review the group's Enterprise Risk Management and Internal Control Framework
- Review group risk appetite and establish risk policies
- Review credit risk rating system
- Review policies for asset and liability management
- Review financial and other risk exposures and the steps management has taken to identify and measure risk
- Review appropriate transaction or trading limits
- Review reports and significant findings from the Risk

Management Division, Risk Committee of the Management and from the regulatory agencies relating to risk

- Review Internal Capital Adequacy Assessment Process (ICAAP) submission to the Central Bank of the UAE
- Review quality, structure and adequacy of capital and economic capital allocation
- Review Basel III, liquidity and leverage review methodology
- Monitor Group's compliance with legal and regulatory obligations
- Review major disclosure documentation prior to issue to the market.

Audit Committee of the Board consists of five Board members and an independent professional. Head of internal audit (HOIA), CEO, COO and CFO are invitees. Steered by the deputy chairman of the Board, the committee receives and considers reports and recommendations from the head of internal audit and the external auditors. Further, it receives and considers any reports issued by the regulatory authorities and makes recommendations to the Board in respect of financial reporting, systems of internal control and both internal and external audit processes. The responsibilities of the committee include, but are not restricted to the following:

- Confirming and assuring the independence of internal auditors
- Reviewing with the head of internal audit and the external auditor the scope, plan, coordination and effectiveness of internal and external audit work
- Overseeing the preparation of financial statements, including a review of the interim and year end accounts, to monitor that such accounts have been prepared in accordance with proper accounting principles
- Reviewing the group's internal control systems for effectiveness
- Reviewing all internal audit reports concerning any investigation or significant fraud that occurs within the Group.

Nomination and Remuneration Committee of the Board comprises the Board's chairman, the Board's deputy chairman and a Board member. The responsibilities of the committee include, but are not restricted to the following:

- Making recommendations to the Board relating to the appointment, reappointment and succession planning of the directors, except for the position of Chairman
- Considering appointment, termination and succession planning for the CEO and other senior management positions
- Reviewing the remuneration policy for the Board, the CEO, senior management and employees of the Bank
- Reviewing the structure, size and composition of the Board
- Evaluating the balance of skills, knowledge and experience on the Board
- Reviewing the performance of the Board

Board Remuneration

Board of Directors – Remuneration and interests in the Bank's shares

The remuneration of Board members is fixed for the year and paid annually, in line with the approval of the General Assembly Meeting. For 2018, the total amount was AED4.8 million, which was charged to the statement of income and represents 0.8 percent of the bank's net profit.

Board member remuneration paid during 2018 for year 2017	Directors' fees (AED per annum)
Chairman	500,000
Deputy Chairman	500,000
Director and Board Secretary	250,000 (Per Person)

Management Committee

Vince Cook	Chief Executive Officer
Adnan Anwar	Chief Financial Officer
Balaji Krishnamurthy	Chief Operations Officer
Justin Morgan-Cooper	Chief Risk Officer
Vikram Pradhan	Head of Corporate & Institutional Banking
Sharif Mohd. Rafei	Senior Executive Officer, Fujairah Region
Abdulla Aleter	Head of Human Resources
Colin Dallas	Head of Retail Banking
Das P B	Senior Executive Officer - NBF Capital Limited

Auditors and Independence

PricewaterhouseCoopers (PwC) was appointed as external auditors for the bank and its subsidiaries by the shareholders at the Annual General Assembly Meeting (AGAM) held on 18 March 2018. The fee for the external audit of the bank and its subsidiaries for the year ended 31 December 2018 was AED535,000 (plus out-of-pocket expenses).

In addition, the engagement fee for other services rendered amounted to AED218,150. All non-audit work is pre-approved by the Board.

PricewaterhouseCoopers
Emaar Square, Building 4, Level 8
P.O. Box 11987, Dubai , United Arab Emirates
Telephone: +971 4 304 3100
Facsimile: +971 4 330 4100

Diversity, Sustainability and Social Responsibility

NBF is committed to ensure and maintain the highest levels of transparency and accountability as well as providing a functionally supportive environment to carry out its business activities.

To ensure we follow the best practices in our corporate social responsibility programme, NBF has appointed a Sustainability Steering Committee (SSC) that will oversee the activities run by the Corporate Social Responsibility Committee (CSRC).

Investor Relations and External Communications

The Investor Relations and external communications are managed through the bank's Finance and Strategic Marketing and Communications departments, respectively:

Finance Department

Telephone: +971 9 202 9210
Facsimile: +971 9 202 9403
E-mail: NBF-investorrelations@nbf.ae
Website: www.nbf.ae
(refer to the investor relations section for further details)

Strategic Marketing and Communications Department

Telephone: +971 4 397 1700
Facsimile: +971 4 397 5385

INDEPENDENT AUDITOR'S REPORT

NBF is committed to the highest levels of transparency and governance.



Independent Auditor's Report to the Shareholders and Directors of National Bank of Fujairah PJSC

Report on the Audit of the Consolidated Financial Statements

Our Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Bank of Fujairah PJSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

What We Have Audited

The Group's consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2018;
- The consolidated statement of income for the year then ended;
- The consolidated statement of comprehensive income for the year then ended;
- The consolidated statement of cash flows for the year then ended;
- The consolidated statement of changes in equity for the year then ended; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



Our Audit Approach

Overview

- Key Audit Matter
- Measurement of Expected Credit Losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key Audit Matters

Key Audit Matters (KAMs) are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of Expected Credit Losses

IFRS 9 'Financial instruments' became effective from 1 January 2018 and replaced most of the guidance in IAS 39 – 'Financial instruments'. In particular, the incurred loss impairment model under IAS 39 has been replaced with the Expected Credit Losses model ("ECL"). The Group has adopted IFRS 9 with effect from 1 January 2018. The adoption of IFRS 9 has resulted in a decrease in total equity by AED 180 million which has been recognized as an adjustment to retained earnings, fair value reserve

and Impairment reserve – General at 1 January 2018. On the initial application of IFRS 9 management has evaluated and disclosed the information required by IFRS 7 and IFRS 9.

The Group applies ECL on all its financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial commitments and financial guarantee contracts.

The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computed portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.

We performed the following audit procedures to assess adequacy of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2018:

- We tested the completeness and accuracy of the data used in the calculation of ECL.
- For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria.
- We involved our internal specialists to assess the following areas:
 - Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9.
 - ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments.
 - Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.
 - For a sample of exposures, our internal specialists checked the appropriateness of determining EAD, including the consideration of repayments and collaterals.

For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral.

The Group's impairment policy under IFRS 9 is presented in Note 4 to the consolidated financial statements.

Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.

- In addition, for the Stage 3 portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit file.
- We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.

Other Information

The directors are responsible for the other information. The other information comprises Strategic Report, Directors' Report and Corporate Governance Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (the "Board of Directors"), are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key

audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. (2) of 2015, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- (iii) the Group has maintained proper books of account;
- (iv) the financial information included in the Strategic Report, Directors' Report and Corporate Governance Report, is consistent with the books of account of the Group;
- (v) note 9 to the consolidated financial statements discloses the shares purchased by the Bank during the year;
- (vi) note 27 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- (vii) note 24 to the consolidated financial statements discloses the social contributions made during the year; and
- (viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
11 February 2019



Jacques E Fakhoury

Registered Auditor Number 379
Place: Dubai, United Arab Emirates

GROUP FINANCIAL STATEMENTS

NBF has built a strong position by concentrating on its core business and deepening its focus on the customers.



Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 AED'000	2017 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	6,722,964	6,916,739
Due from banks and financial institutions	8	1,415,362	1,940,018
Investments and Islamic instruments	9	2,713,447	1,916,322
Loans and advances and Islamic financing receivables	10	26,202,411	24,065,827
Property and equipment and capital work-in-progress	12	292,048	164,533
Other assets	13	2,437,054	1,652,937
Total assets		39,783,286	36,656,376
Liabilities			
Due to banks	14	569,314	627,515
Customer deposits and Islamic customer deposits	15	30,472,471	27,864,997
Term borrowings	14	863,155	1,410,075
Other liabilities	16	2,756,480	1,863,151
Total liabilities		34,661,420	31,765,738
Shareholders' equity			
Share capital	17	1,644,455	1,366,527
Statutory reserve	17	936,053	549,992
Special reserve	17	506,492	444,992
Fair value reserve		(27,932)	(4,089)
Proposed cash dividends	17	123,334	102,489
Proposed bonus issue	17	205,557	102,489
Impairment reserve	4a	266,440	-
Retained earnings		967,467	1,328,238
Tier 1 capital notes	18	500,000	1,000,000
Total shareholders' equity		5,121,866	4,890,638
Total liabilities and shareholders' equity		39,783,286	36,656,376

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 11 February 2019 and are signed on its behalf by:



Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman



Easa Saleh Al Gurg, KCVO, CBE
Deputy Chairman

The notes on pages 41 to 89 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 29 to 34.

Consolidated Statement of Income

For the year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
Interest income and income from Islamic financing and investment activities	19	1,764,911	1,452,582
Interest expense and distribution to Islamic Depositors	20	(678,260)	(535,022)
Net interest income and net income from Islamic financing and investment activities		1,086,651	917,560
Net fees and commission income	21	308,663	311,460
Foreign exchange and derivatives income		137,275	100,811
(Loss) / income from investments and Islamic instruments		(5,033)	19,322
Other operating income	22	46,280	29,388
Operating income		1,573,836	1,378,541
Operating expenses			
Employee benefits expense	23	(344,361)	(309,429)
Depreciation and amortization	12	(25,708)	(25,628)
Other operating expenses		(151,667)	(129,873)
Total operating expenses		(521,736)	(464,930)
Operating profit		1,052,100	913,611
Net impairment losses	25	(436,786)	(441,668)
Profit for the year		615,314	471,943
Earnings per share (basic and diluted)	26	AED 0.33	AED 0.24

Appropriations have been reflected in consolidated statement of changes in equity.
The notes on pages 41 to 89 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 29 to 34.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Profit for the year	615,314	471,943
Other comprehensive income:		
Changes in fair value through other comprehensive income (FVOCI) / available-for-sale investments:		
Net fair value gains on disposal of FVOCI / available-for-sale investments	(1,159)	(19,532)
Net changes in fair value of FVOCI / available-for-sale investments	(28,789)	24,979
Net change in FVOCI / available-for-sale-investments	(29,948)	5,447
Total comprehensive income for the year	585,366	477,390

The notes on pages 41 to 89 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 29 to 34.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 AED'000	2017 AED'000
Operating activities			
Profit for the year		615,314	471,943
Adjustments for:			
Depreciation and amortization	12	25,708	25,628
Provision for employee end of service and other long term benefits	16.1	14,939	13,514
Gain on disposal of property and equipment		-	(7)
Net impairment losses	25	436,786	441,668
Net fair value gains on disposal of investments and Islamic instruments		(1,552)	(19,552)
Net changes in fair value of investments at fair value through profit or loss		6,585	230
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		1,097,780	933,424
Payment of employee end of service and other long term benefits	16.1	(9,421)	(11,418)
Change in statutory reserve with the UAE Central Bank		(167,228)	(157,818)
Change in due from banks and financial institutions		446,697	(46,699)
Change in loans and advances and Islamic financing receivables		(2,708,068)	(1,688,999)
Change in other assets		(784,117)	335,830
Change in due to banks		54,571	(277,471)
Change in customer deposits and Islamic customer deposits		2,607,474	1,926,506
Change in other liabilities		843,769	(272,827)
Net cash generated from operating activities		1,381,457	740,528
Investing activities			
Purchase of property and equipment and capital work-in-progress		(153,223)	(38,366)
Proceeds from sale of property and equipment		-	7
Purchase of investments and Islamic instruments		(2,922,952)	(1,965,014)
Proceeds from sale of investments and Islamic instruments		2,095,605	1,859,740
Net cash used in investing activities		(980,570)	(143,633)
Financing activities			
Proceeds from term borrowings		569,315	404,030
Repayment of term borrowings		(1,116,235)	(900,604)
Cash dividends paid		(102,489)	(95,339)
Tier 1 capital notes coupon paid		(70,938)	(70,469)
Net cash used in financing activities		(720,347)	(662,382)
Net change in cash and cash equivalents		(319,460)	(65,487)
Cash and cash equivalents at beginning of the year		5,849,839	5,915,326
Cash and cash equivalents at end of the year	28	5,530,379	5,849,839
Principal non-cash transactions during the year			
Conversion of tier 1 capital notes to paid-up share capital		(500,000)	-
Issuance of ordinary shares on conversion of tier 1 capital notes		175,439	-
Movement in reserves on conversion of tier 1 capital notes		324,561	-
		-	-

The notes on pages 41 to 89 form an integral part of these consolidated financial statements.

The report of the independent auditor is set out on pages 29 to 34.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Proposed dividends AED'000	Retained earnings AED'000	Impairment reserve AED'000	Tier 1 capital notes AED'000	Total AED'000
At 01 January 2017	1,271,188	503,223	398,223	(9,536)	190,678	1,225,280	-	1,000,000	4,579,056
Total comprehensive income for the year	-	-	-	5,447	-	471,943	-	-	477,390
Tier 1 capital notes coupon paid (note 18)	-	-	-	-	-	(70,469)	-	-	(70,469)
Proposed cash dividends	-	-	-	-	102,489	(102,489)	-	-	-
Proposed bonus issue	-	-	-	-	102,489	(102,489)	-	-	-
Transfer to reserves	-	46,769	46,769	-	-	(93,538)	-	-	-
2016 cash dividends paid	-	-	-	-	(95,339)	-	-	-	(95,339)
2016 bonus shares issued	95,339	-	-	-	(95,339)	-	-	-	-
At 31 December 2017	1,366,527	549,992	444,992	(4,089)	204,978	1,328,238	-	1,000,000	4,890,638
At 01 January 2018	1,366,527	549,992	444,992	(4,089)	204,978	1,328,238	-	1,000,000	4,890,638
Initial application of IFRS 9 (note 6.1)	-	-	-	6,105	-	(300,772)	113,956	-	(180,711)
Restated balance at 01 January 2018	1,366,527	549,992	444,992	2,016	204,978	1,027,466	113,956	1,000,000	4,709,927
Excess provisions under UAE Central Bank requirements over IFRS 9 (note 4a)	-	-	-	-	-	(152,484)	152,484	-	-
Total comprehensive income for the year	-	-	-	(29,948)	-	615,314	-	-	585,366
Conversion of tier 1 capital notes to paid-up share capital (note 17 & 18)	175,439	324,561	-	-	-	-	-	(500,000)	-
Tier 1 capital notes coupon paid (note 18)	-	-	-	-	-	(70,938)	-	-	(70,938)
Proposed cash dividends	-	-	-	-	123,334	(123,334)	-	-	-
Proposed bonus issue	-	-	-	-	205,557	(205,557)	-	-	-
Transfer to reserves	-	61,500	61,500	-	-	(123,000)	-	-	-
2017 cash dividends paid	-	-	-	-	(102,489)	-	-	-	(102,489)
2017 bonus shares issued	102,489	-	-	-	(102,489)	-	-	-	-
At 31 December 2018	1,644,455	936,053	506,492	(27,932)	328,891	967,467	266,440	500,000	5,121,866

The notes on pages 41 to 89 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 29 to 34.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. Legal status and activities

National Bank of Fujairah (the Bank) is a Public Joint Stock Company registered under the laws of the United Arab Emirates. The Bank operates under a banking license issued on 29 August 1984 by the Central Bank of the United Arab Emirates (the UAE Central Bank) and commenced operations on 20 September 1984. The shares of the Bank were listed on Abu Dhabi Securities Exchange (ADX) on 23 October 2005.

The principal activity of the Bank is commercial banking which is carried out from its network of eighteen branches, including an electronic banking service unit in Al Reef - Abu Dhabi, across the UAE in Fujairah, Abu Dhabi, Dubai, Sharjah, Dibba, Jebel Ali, Musaffah, Masafi, Qidfah, Deira, Tawian, Al-Ain, Fujairah City Centre, Al Quoz, Fujairah Free Zone, Al Ras and Fujairah Court.

The Bank has three fully owned subsidiary companies:

- NBF Financial Services FZC was established in December 2004 with limited liability status in the Fujairah Free Trade Zone to provide support services to the Bank.
- NBF Capital Limited is registered in the Dubai International Financial Centre (DIFC) as a company limited by shares under DIFC laws and regulations and regulated by the Dubai Financial Services Authority (DFSA). The Company was established on 3 April 2013 and commenced operations on 12 May 2013. The principal business activities of the Company are arranging credit or deals in investments and advising on financial products or credit.
- NBF Markets (Cayman) Limited is registered in the Cayman Islands as an exempted company limited by shares under the Companies Law (revised) of the Cayman Islands and regulated by the Cayman Island Government General Registry. The Company was established on 31 January 2017 to provide support services to the Bank to enter into foreign exchange and derivative transactions with financial institutions / counterparties under the terms and conditions of International Swaps and Derivatives Association (ISDA).

NBF Trade Services (HKG) Limited has been voluntarily wound up on 28 August 2018 pursuant to the articles of association of the Company and in accordance with the requisite approvals and regulatory requirements. The Company was governed and regulated under the Hong Kong Companies Ordinance established on 10 May 2013. The principal activity of the Company was the provision of trade processing services.

The consolidated financial statements for the year ended 31 December 2018 comprise the Bank and its subsidiaries (together referred to as 'the Group').

UAE Federal Law No. 2 of 2015 (Companies Law) which is applicable to the Group has come into effect from 1 July 2015. The Group had assessed, evaluated and ensured compliance with the relevant provisions of the Companies Law.

The registered address of the Group is Hamad Bin Abdullah Street, P. O. Box 887, Fujairah, United Arab Emirates.

2. Disclosure policy

The Group has established a disclosure policy to ensure compliance with all applicable laws and regulations concerning disclosure of material non-public information, including International Financial Reporting Standards (IFRS), the rules of the UAE Central Bank and its Basel II Pillar 3 guidelines and the listing requirements of the Securities and Commodities Authority (SCA) and ADX.

Frequency and medium of disclosure

The condensed consolidated interim financial information is prepared and presented on a quarterly basis while complete consolidated financial statements are prepared and presented on an annual basis in compliance with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the UAE Central Bank. Disclosures of material non-public financial information are made by the Finance Department of the Group through the following mediums:

- Sending quarterly reviewed and annual audited consolidated financial statements, along with Management Discussion Analysis or Directors' report and any other price sensitive information, to ADX and SCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website;
- Publication of the annual report; and
- Investor presentations.

In addition, the Group's Corporate Communication Department discloses and disseminates information through press releases, media coverage and the Group's website.

3. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates.

Along with these consolidated financial statements, the Group has presented Basel II Pillar 3 disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel II Pillar 3 guidelines has impacted the type and amount of disclosures made in these consolidated financial statements, but has no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel II, the Group has provided full comparative information.

4. Significant accounting policies

(a) Standards, amendments and interpretations

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2018

New standards and significant amendments to standards applicable to the Group	Effective date
<p>IFRS 15, 'Revenue from contracts with customers'</p> <p>IFRS 15 replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. (IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers).</p> <p>Amendments to IFRS 15, 'Revenue from contracts with customers'</p> <p>These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.</p> <p>The Group has assessed the impact of IFRS 15 which is not material.</p>	<p>01 January 2018</p>
<p>IFRS 9, 'Financial instruments'</p> <p>IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, FVOCI and fair value through profit and loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.</p>	<p>01 January 2018</p>

IFRS 9 addresses the classification, measurement, recognition and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has adhered to the requirements of IFRS 9 as at 01 January 2018 and has completed the classification and measurement of its financial assets and liabilities in accordance with the business model as stipulated by IFRS 9. These classifications comprise FVOCI, FVTPL and amortised cost. The majority of financial assets and liabilities are classified as amortised cost in accordance with the Bank's business model except for certain investments

which are classified as FVOCI and FVTPL instruments. The impact in equity on account of the change in classification and measurement in accordance with IFRS 9 amounted to **AED 6.1 million**.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than the incurred credit losses basis as is the case under IAS 39. It applies to financial assets classified as amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts.

4. Significant accounting policies (continued)
(a) Standards, amendments and interpretations (continued)

The Group had elected not to re-state comparative periods and the difference between the previous carrying amounts and the new carrying amounts at the date of initial application (i.e. effective date of 01 January 2018) has been recorded in retained earnings at 01 January 2018.

The Group has reviewed and completed its assessment of the impairment provision and methodology in accordance with IFRS 9 requirements and compliance with CBUAE regulatory requirements. The net incremental ECL under IFRS 9 as at 01 January 2018 was **AED 186.8 million**,

comprising Stage 3 ECL shortfall of **AED 300.8 million** and Stage 1 and 2 surplus of **AED 114.0 million**. Accordingly, retained earnings at 01 January 2018 has been reduced by **AED 300.8 million** to recognize the incremental ECL under Stage 3 and an Impairment reserve – General had been established to reflect an additional provision of **AED 114.0 million** in excess of the collective impairment provision under IFRS 9, as at that date. The table below analyses the movement in the impairment reserve during the year ended 31 December 2018.

	Impairment reserve – General AED'000	Impairment reserve – Specific AED'000	Impairment reserve AED'000
At 01 January 2018	113,956	-	113,956
Reduction in excess general provision under CBUAE over Stage 1 and 2 requirements under IFRS 9	(38,696)	-	(38,696)
Excess specific provision under CBUAE over IFRS 9	-	191,180	191,180
	(38,696)	191,180	152,484
At 31 December 2018	75,260	191,180	266,440

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The adoption of IFRS 9 did not have any material impact on the existing hedge relationships of the Bank.

The new standard also introduced expanded disclosure requirements and changes in presentation. These have been incorporated in these consolidated financial statements.

There are no other IFRSs or IFRS IC interpretations, that were effective for the first time for the financial year beginning on 01 January 2018 that have had a material impact on the Group's consolidated financial statements.

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 01 January 2018 and not early adopted

New standards and significant amendments to standards applicable to the Group	Effective date
<p>IFRS 16, 'Leases'</p> <p>This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.</p> <p>For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p> <p>As at the reporting date, the Group has operating lease commitments of AED 21.6 million of which AED 2.1 million relate to short-term leases, which will be recognised on a straight-line basis as an expense in the consolidated statement of income. For the remaining lease commitments, the Group expects to recognise right-of-use assets of AED 42.1 million on 01 January 2019 and lease liabilities of AED 42.1 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). The Group expects that the net profit will decrease by AED 0.7 million for 2019 as a result of adopting the new standard.</p> <p>The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the consolidated financial statements and additional disclosures will be complied with from the effective implementation date of 01 January 2019</p>	01 January 2019

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 01 January 2018 and not early adopted (continued)

Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation	Effective date
<p>The IASB has issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at FVTPL.</p> <p>This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.</p> <p>The Group is taking measures to adhere to the new standards and amendments to published standards or IFRS IC interpretations issued but not yet effective as relevant for the Group's financial year beginning on 01 January 2018.</p>	<p>01 January 2019</p>

There are no other applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 01 January 2018 that would be expected to have a material impact on the Group's consolidated financial statements.

(b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of the following financial assets measured at fair value:

- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- Financial instruments at fair value through other comprehensive income.

(c) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured and presented in the United Arab Emirates Dirham ("AED") which is the functional currency of the Group.

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

(d) Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Financial instruments

Classification and measurement

The Group classifies its financial assets into the following measurement categories:

- i. those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- ii. those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets' cash flows. The Group classifies its financial liabilities at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities at fair value through profit or loss such as derivative liabilities.

Financial assets measured at fair value through other comprehensive income

Debt instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. Refer to note 9 for Investments and Islamic instruments at fair value through other comprehensive income.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost.

4. Significant accounting policies (continued)
(e) Financial instruments (continued)

Equity instruments

Investment in equity instruments that are neither held for trading nor contingent consideration, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

- financial assets held for trading;
- financial assets specifically designated as fair value through profit or loss on initial recognition; and

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise. Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Financial instruments held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship. Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- if a host contract contains one or more embedded derivatives; or
- if financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Financial assets measured at amortised cost

Debt instruments

Investments in debt instruments are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in note 4 (e) Impairment of financial assets.

Impairment of financial assets

The Group applies a three-stage approach to measuring ECL for the following categories of financial assets that are not measured at fair value through profit or loss:

- debt instruments measured at amortised cost and fair value through other comprehensive income;
- due from banks and financial institutions;
- loans and advances and Islamic financing receivables;
- loan commitments;
- financial guarantee contracts; and
- lines of credit.

No ECL is recognised on equity investments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been an SICR since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest income is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired.

The Group assesses, on a forward-looking basis, the ECL associated with the above categories of financial assets. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Measuring ECL

The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- Two types of PDs are used for calculating ECL
 - 12 month PDs – This is the estimated probability of default occurring within the next 12 months (or over the

remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures.

- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. It varies for the types of financial assets defined in the section above.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default.

Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts.

The most significant period-end assumptions used for ECL estimate as at 31 December 2018 are set out below. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables:

Macroeconomic variables	Scenario	2019	2020	2021	2022	2023
Oil Price (USD per barrel)	Base case	71.19	70.89	67.19	67.66	68.05
	Upside	78.59	91.10	86.44	85.43	84.66
	Downside	60.08	49.08	47.79	52.71	56.52
UAE Gross Domestic Product (GDP) (AED billion)	Base case	1,513	1,559	1,604	1,653	1,697
	Upside	1,533	1,625	1,699	1,747	1,779
	Downside	1,439	1,392	1,407	1,479	1,543
Stock market volatility (Delta of points)	Base case	24.56	26.93	22.65	21.91	22.29
	Upside	21.98	25.01	22.26	20.92	22.10
	Downside	38.30	28.06	22.88	21.83	22.61

Sensitivity analysis

If the macroeconomic variables (defined above) were to change by the base case, upside and downside scenarios, the ECL under stages 1 and 2 will change as follows:

Change in ECL due to change in macroeconomic variables	Base case	Upside	Downside
Stage 1	-6.70%	-23.00%	41.81%
Stage 2	0.26%	-19.29%	25.24%

There has been no significant sensitivity impact on stage 3 ECL.

Determining the stage for impairment

At each reporting date, the Group assesses whether there has been an SICR for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information. Further, forward-looking economic information / variables are

4. Significant accounting policies (continued)
(e) Financial instruments (continued)

also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by segments and product type. Further, the assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a periodic basis by the Risk and Credit functions.

An exposure will migrate through the ECL stages as the asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-month ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's rating downgrade methodology, or which are less than or equal to 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-month ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as other operating income in the consolidated statement of income. The Group

assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

ECLs are recognised using provision for doubtful debts account in the income statement. In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECL is also based on the three-stage approach as applied to financial assets at amortised cost.

The Group ensures that the risk rating of the obligor correctly reflects its credit risk. NBF has in place a robust early warning signal mechanism to ensure credit risk deterioration is highlighted before the default takes place. This is via close monitoring of key early warning signals such as excesses, past dues, cheque / payment failures, external market feedback and credit ratings, covenant / condition breaches and weak financials. The Bank's credit policy requires the submission of an Early Warning Questionnaire (EWQ), if credit weaknesses are identified.

Significant increase in credit risk (SICR)

The Group assesses SICR since initial recognition for financial instruments in line with IFRS 9 and UAE Central Bank guidelines, considering the following qualitative and quantitative factors:

Quantitative factors

Stage	Corporate and Institutional Banking portfolio	Retail portfolio	Due from banks and Investments portfolio
1 » 2	<ul style="list-style-type: none"> Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition Restructured portfolio DPD 31-89 days 	<ul style="list-style-type: none"> Restructured portfolio DPD 31-89 days 	Credit rating of Caa1 to Caa3 to be classified as Stage 2
1 » 3 2 » 3	<ul style="list-style-type: none"> Credit impaired portfolio RR 20 - 22 DPD ≥ 90 days 	<ul style="list-style-type: none"> Credit impaired portfolio RR 20 - 22 DPD ≥ 90 days 	Credit rating of C and below to be classified as Stage 3

Qualitative factors

For Corporate and Institutional Banking portfolio, if the borrower is on the watchlist and / or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and / or economic conditions in which the borrower operates
- Actual and expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow / liquidity problems such as delay in servicing of trade creditors / loans

For Retail portfolio, if the borrower meets one or more of the following criteria:

- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit and Risk teams. The Group has not used the low credit exemption for any financial instruments during the year ended 31 December 2018.

Curing Criteria - upward ECL stage movement

The curing criteria is in line with UAE Central Bank IFRS 9 guidelines and is considered based on the combination of the following qualitative factors:

- DPD movement
- Probationary period
- Notches of ratings upward movement
- **From stage 2 (Lifetime ECL) to stage 1 (12-month ECL)**
 - Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 2 to stage 1.
 - DPD shall be ≤ 30 days over the last 12 month period; and / or
 - Upward movement of risk ratings is reflected as per internally defined criteria.
- **From stage 3 (Lifetime ECL – credit impaired) to stage 2 (Lifetime ECL – not credit impaired)**
 - Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 3 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 3 to stage 2.
 - DPD shall be < 90 days over the last 3 month period; and / or
 - Upward movement of risk ratings is reflected as per internally defined criteria.

An exposure cannot be upgraded from Stage 3 to Stage 1 directly and should be upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

Fair value measurement principles

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the fair value of a financial instrument is based on quoted market prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available or if a market for a financial instrument is not active, the fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, discounted cash flow methods, comparison to similar instruments for which market observable prices exist. For investments under management with external fund managers, fair value is provided by the external fund managers, and is determined based on the market value of underlying investments of each fund. In all other cases, the instruments are measured at acquisition cost, including transaction cost, less impairment losses, if any.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the date of the consolidated statement of financial position for an instrument with similar terms and conditions.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty, where appropriate. Fair value estimates

obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the date of consolidated statement of financial position, taking into account current market conditions and the current creditworthiness of the counterparty.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- **Level 2:** Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Pursuant to disclosure requirements of IFRS 7 Financial Instruments: Disclosures, the Group has disclosed the relevant information under note 6.2.

(f) Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

Derivative financial instruments are initially recognised at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive (unrealized gains) and as liabilities where the fair values are negative (unrealized losses). Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

4. Significant accounting policies (continued)
(f) Derivatives (continued)

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognizing fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Group accounts for such embedded derivatives at fair value separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly related to the host contract.

Hedge accounting

Derivatives designated as hedges are classified as either: (i) hedges of the change in the fair value of recognized assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group prepares a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognized in the consolidated statement of income and the carrying amount of the hedged item is adjusted accordingly. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued. The replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the Group's documented hedging strategy. Any adjustment up to that point to the carrying value of a hedged item, for which the effective interest method is used, is amortized in the consolidated statement of income as part of the recalculated effective interest rate over the period to maturity or derecognition.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognized immediately in the consolidated statement of income. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the consolidated statement of income in the periods in which the hedged item affects profit or loss, in the same line of the consolidated statement of income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting. Any cumulative gains or losses recognized in equity remain in equity until the forecast transaction is recognized, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated statement of income. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognized in equity are immediately transferred to the consolidated statement of income from other comprehensive income.

Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Hedge ineffectiveness is recognized in the consolidated statement of income.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated statement of income.

(g) Key accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates. These disclosures supplement the commentary on financial risk management set out in note 5. In particular, considerable management

judgement is required in the impairment losses on loans and receivables and investments portfolio covered in note 4(e) of these consolidated financial statements.

(h) Due from banks and financial institutions

Amounts due from banks and financial institutions are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amounts due from banks and financial institutions is assessed as outlined in the accounting policy on financial instruments in note 4 (e).

(i) Property and equipment, capital work-in-progress, depreciation and amortisation

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Depreciation is charged to the consolidated statement of income on a straight line basis over the estimated useful lives of property and equipment. Freehold land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal are recognized in the consolidated statement of income. The estimated useful lives for various types of assets are as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the period of lease
Furniture and equipment	4 years
Motor vehicles	3 years

Useful life and the depreciation method are re-assessed at each reporting date.

Capital work-in-progress

Capital work-in-progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

Software

Software acquired by the Group is stated at cost less accumulated amortisation and impairment losses, if any. Cost of the software represents the costs incurred to acquire and bring the specific software to use.

Amortisation is recognised in the consolidated statement of income on a straight-line basis over the estimated useful life of the software, from the date it is available for use. The useful life of software is estimated to be five years.

(j) Government grants

Land granted by the Government of Fujairah is recorded at nominal value.

(k) Due to banks, term borrowings and customer deposits

Due to banks, term borrowings and customer deposits are initially measured at fair value plus directly attributable transaction costs. Subsequently, these are measured at amortised cost using the effective interest method except where the Group chooses to carry the liabilities at fair value through the consolidated statement of income. Amortised cost is calculated by taking into account any discount or premium on settlement.

(l) Provisions

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

(m) Guarantees

Guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment or provide agreed service when due in accordance with the terms of a debt. Guarantees are recognized at their fair value.

The guarantee liability is subsequently carried at the higher of the amortised cash flow and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

(n) Employee end of services benefits

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labour law for their periods of service up to the financial position date and the provision arising is disclosed as 'provision for employees' end of service benefits' in the statement of financial position. The Group pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

(o) Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in the consolidated statement of income on an accruals basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently unless re-priced.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

4. Significant accounting policies (continued)

(p) Net fees and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

(q) Income from investments and Islamic instruments

Gains and losses on investments at fair value through profit or loss, are recognized in the consolidated statement of income.

(r) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(s) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and balances with the UAE Central Bank (excluding statutory reserve) and other balances due from (excluding bills discounted) and due to banks maturing within three months. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(t) Foreign currencies

Foreign currency transactions are recorded at the rate of exchange ruling at the value date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rate of exchange ruling at the reporting date. Any resultant gains and losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Forward foreign exchange contracts are translated into AED at the mid-market rate of exchange applicable to their maturities ruling at the reporting date. Any resultant gains and losses are recognized in the consolidated statement of income.

(u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of each operating segment are reviewed regularly by the management and Chief Executive Officer (together referred to as the "Chief Operating Decision Maker" or "CODM") to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(v) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS / IAS, or when gains and losses arise from a group of similar transactions such as in the Group's trading activity.

(w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(x) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated based on the higher of fair value less costs to sell and value in use. The reduction in carrying amount is recognised in the consolidated statement of income.

(y) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

(z) Acceptances

Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

(aa) Islamic financing receivables, Islamic instruments and Islamic customer deposits

The Group engages in Shari'a – compliant Islamic banking activities through a window called "NBF Islamic". The Islamic operations were launched in 2014 and the various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRS IC.

Murabaha

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Group) expressly mentions the actual cost of the asset to be sold to the customer, and sells it to the customer on a cost plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognized on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara

Ijara involves a contract where the Group buys and then leases an item to a customer for a specified rental over a specific

period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Group acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognized on a time apportioned basis over the lease term, using the effective profit rate method.

Qard

A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Group, and it is binding on the Group to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Group, on which no profit or other form of return is payable.

Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is an asset backed trust certificate evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'a.

Wa'ad – Structured Shari'a hedging product

Islamic Swaps are based on a Wa'ad (promise) structure between two parties to buy a specified Shari'a – compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency.

Wakala

Wakala is defined as a contract between the Group and a customer, whereby the customer (principal: Muwakkil) appoints the Group (agent: Wakil) to invest certain funds, according to the terms and conditions of the Wakala. The funds are used to generate profit for the customer by investing in Islamic financing facilities of the Group's other customers or investing in other Shari'a – compliant investment instruments.

Income generated from the Wakala deposits are paid to the customers and the Group recognizes a corresponding expense in the statement of income. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the agent; otherwise, they are borne by the principal.

Istisna' forward Ijara

Istisna' with forward Ijara structure involves an agreement which provides the customer with financing for building and construction of a Shari'a – compliant asset; qualifying for an Ijara transaction. This broadly includes the condition that the asset should have an identified usufruct and is non-consumable. Although, the asset does not exist in its final form at the signing of the contract, the exact details and specifications of the asset shall be clearly described in both the Istisna' and forward Ijara documents.

Income on Istisna' forward Ijara financing is recognized on a time apportioned basis over the lease term, using the effective profit rate method.

Mudaraba

In Mudaraba, the customer enters into a contract with the Group where the customer in the capacity of Rab-al-Maal will give the Group cash as capital for investment purposes. The Group, as Mudarib, shall endeavor to assist the customer in achieving the investment goals. This is the type of an unrestricted Mudaraba investment contract whereby the investment decision will be at the full discretion of the Group. The customer and the Group will then share the profit (if any) from the investments made by the Group based on a pre-agreed Profit Sharing Ratio (PSR).

In case the investment fails to generate income or suffers a loss, the Rab-al-Maal shall bear the loss of investment and whilst the Mudarib shall bear the loss of effort and labour. Mudarib will only be liable for financial losses in case of negligence or misconduct.

Rab-al-Maal's share of profit is accrued as an expense in the consolidated statement of income in accordance with agreed terms and conditions.

5. Financial risk management

(a) Introduction

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement, mitigation, reporting and monitoring. The Group's exposure can be broadly categorized into the following defined Material Risks:

- Credit risk
- Liquidity risk
- Market risk (includes investment price risk, currency risk and interest rate risk)
- Operational risk (includes risks arising from Group's processes, personnel, technology, legal, regulatory requirements and information security risks)
- Regulatory Compliance Risk

Reputational and strategic business risks are interrelated to the above defined Material Risks. These risks are considered through the Bank's strategic planning and general risk management activities. NBF risk management strategy is focused on ensuring awareness, measurement and appropriate oversight to these defined material risks.

The Group remains focused to further develop its enterprise risk management culture, practices and processes proactively on an ongoing basis.

The Bank follows both the Internal Rating Based (IRB) Approach and Standardized Approach for its risk and capital management. In addition, the Bank is also exposed to other risks that are managed along with the key risks, and are quantified, monitored and reported as part of the NBF's Internal Capital Adequacy Assessment Process (ICAAP) Framework. Such risks include, among others, residual risk, concentration risk, liquidity risk, interest rate risk in banking book, settlement risk, reputational risk, cyber risk, strategic risk, business risk, and legal and compliance risk.

5. Financial risk management (continued)
(a) Introduction (continued)

The Board approved ICAAP covers these approaches and a detailed report is submitted to the UAE Central Bank on an annual basis.

The Group has complied with the new 'Capital Adequacy Regulations' issued by the UAE Central Bank during 2017, which is in accordance with the revised rules outlined by the Basel Committee on Banking Supervision in 'Basel III: A global regulatory framework for more resilient banks and banking systems'. Relevant information / details have been disclosed in note 5(g).

(b) Governance and risk management framework

The Group is always committed to the implementation of best practices and governance standards.

This note presents broad information about the Group's objectives, policies and processes for identifying, measuring, reporting and mitigating the above mentioned risks and the Group's management of capital. This note also covers enhanced disclosures relating to Pillar 3 (Market Discipline) of Basel II.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's enterprise risk management framework. The Board sets the overall risk appetite and strategy in consultation with the senior management and approves all principal governance committee charters, policies and guidelines to manage the above mentioned risks. The Board has established committees, as detailed in the Corporate Governance Report, to enhance the oversight mechanism to carry out its responsibilities effectively.

Risk appetite, enterprise-wide risk management and the internal control framework:

The Group defines Risk Appetite as the degree of risk that it is prepared to accept in pursuit of its strategic objectives and strategic plan, giving considerations to the Bank's various stakeholders, including depositors, shareholders and other relevant parties. The Risk Appetite Statement (RAS) intends to document the Group's willingness to undertake risk to achieve its strategic plan objectives. The RAS is used as the primary guiding document in the execution of the business strategy and therefore all strategic decisions are also considered in context of the defined RAS.

The RAS is a Board approved articulation of the aggregate level and types of risk that the Group will accept or avoid in order to achieve its business objective. For each material risk, the Board has defined the maximum level of risk that the Bank is willing to operate within.

The Board sets the risk appetite, policies and has approved the Enterprise-wide Risk Management and Internal Control Framework. The Bank follows a three lines of defense structure with management control being the first, independent risk management oversight being the second

and an independent audit assurance being the third. The principal responsibility for the execution and implementation of policies and internal controls rests with respective functions and departments in accordance with the approved framework. An independent Risk Management function carries out the oversight through independent review and approval of procedures, spot checks to assess adequacy of internal controls and meeting of compliance requirements, operational risk management, credit portfolio risk review and middle office activities for market and liquidity risks. An independent internal and external audit process provides an independent assurance to the Board.

During 2017 and 2018, the Bank continued to invest in various regulatory compliance activities. As a result, the Bank segregated Compliance function from Operational Risk function in 2017, which oversees Regulatory Compliance and Financial Crime matters. Further, the Group undertook improvements to its Anti-Money Laundering (AML) / Combating the Financing of Terrorism (CFT) / sanctions control environment. Group also enhanced its operational risk profile and testing to ensure effectiveness of controls.

The Group follows the Board approved whistle blowing policy where staff, customers and other stakeholders of the Bank can independently raise matters to the Chief Executive Officer (CEO), the Head of Internal Audit or the Board Secretary. The Group through the Grievance and Disciplinary Committee (GDC) comprising Head of Human Resources, Chief Risk Officer, Chief Operating Officer and Head of Corporate and Institutional Banking, and reporting to the CEO promotes transparent and fair dealings among staff.

The role of the Internal Audit Function within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the Senior Management. It is led by the Head of Internal Audit who reports to the Audit Committee of the Board, with administrative reporting line to the CEO. To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

UAE Central Bank during the year has issued a number of standards and regulations on the various elements of overall Risk Management and Capital Management Framework. The standards and regulations includes but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk which are expected to come in to effect in 2019. The

Group is taking measures to adhere to the aforementioned new standards and regulations to ensure compliance from the effective implementation date.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations in full or on time, and arises principally from the Group's loans and advances and Islamic financing receivables to customers and amounts due from banks and investments portfolio.

The Group is mainly engaged in Corporate and Institutional Banking business which comprises the majority of loans and advances and Islamic financing receivables. Group has also been growing its Retail Banking loans and advances and Islamic financing receivables. The credit is assessed based on specific guidelines which are reviewed and approved by the Board Risk Committee and the Board.

Management of credit risk

In 2017, the NBF Board approved the establishment of a Credit Risk Management Framework (CRMF) to further articulate and structure credit risk management activities across the key credit lifecycle stages of:

- Origination
- Evaluation and approval
- Administration
- Monitoring and portfolio management
- Credit Risk Mitigation
- Early warning signals followed by Remedial Management

The CRMF includes elements of:

- Risk appetite and policy setting;
- An authorization structure and limits for the approval and renewal of credit facilities;
- Review and assessment of credit applications in line with credit policies and within the authorization and limit structure. Renewals of facilities are subject to the same review process;
- Diversification and limiting concentrations of exposure to counterparties, geographies, industries and asset classes;
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries, countries and products and reviewing limits in accordance with the risk management strategy and market trends;
- Remedial management and recoveries; and
- Stress testing.

Credit limits for individual clients and counterparties are established with direct knowledge of the client's

creditworthiness as per the Bank's Credit Policy. An independent Credit Department is responsible for reviewing, recommending and approving underwriting proposals. The Group has developed and implemented comprehensive procedures and information systems to monitor the condition of individual credits across the various portfolios and identify early warning signals. The dedicated credit monitoring unit (CMU) scope of operations covers key areas such as, account conduct, compliance discipline, data usage and collateral management.

The Risk Management Department, as the second line of defense, is responsible for managing credit risk and formulation of credit policies in line with strategic objectives, risk appetite, business growth, regulatory requirements and risk management standards. Managing credit risk has both qualitative and quantitative aspects. Credit Portfolio Risk is responsible for undertaking a portfolio review of credit risks / quality through the Credit Risk Asset Review process. Independent departments are responsible for documentation, collateral management, custody and limit management. Periodic review of the process is also undertaken.

Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risk, Group RAS document, risk policies and procedures include specific guidelines to ensure maintenance of diversified portfolios through a series of country, counterparty, industry, sector and product limits.

Credit exposures to individual customers or customer groups are controlled through a tiered hierarchy of delegated approval authorities. Approval is required from the UAE Central Bank for exposures which are likely to exceed single counterparty / group limit(s), keeping in view the regulatory capital base, in accordance with the regulations of monitoring of large exposure limits issued by the UAE Central Bank.

The Group monitors concentrations of credit risk by industry, sector and geographic location. The Group has further defined portfolio caps for its specialized businesses like Marine and Energy and Precious metals segments.

The following tables illustrate the sectoral, geographical and currency wise analysis of loans and advances and Islamic financing receivables. Information about other areas of credit risk is included in the respective notes to the consolidated financial statements.

5. Financial risk management (continued)
(c) Credit risk (continued)

Sector analysis

An analysis of sector concentrations of credit risk arising from loans and advances and Islamic financing receivables as at 31 December 2018 and 2017 is shown below:

2018	Funded exposure AED'000	Unfunded exposure AED'000	Gross exposure AED'000	Gross exposure Stage 3 AED'000	ECL Stage 3 AED'000	Write-off AED'000	Past dues	
							Upto 89 days AED'000	90 days & above AED'000
Trade	12,814,336	2,499,978	15,314,314	499,015	330,771	320,263	190,561	-
Construction	1,784,314	3,562,525	5,346,839	88,093	49,415	37,389	897	-
Government	190,408	6,242	196,650	-	-	-	-	-
Manufacturing	3,780,600	844,415	4,625,015	490,280	294,730	157,902	24,150	-
Financial institutions	343,066	225,524	568,590	-	-	48,833	-	-
Service industries	3,653,930	320,995	3,974,925	213,396	97,858	39,477	67,068	-
Real estate	3,455,552	-	3,455,552	73,425	19,267	-	1,610	-
Individuals	1,345,027	168,892	1,513,919	39,073	17,420	57,000	1,060	-
Gross amount	27,367,233	7,628,571	34,995,804	1,403,282	809,461	660,864	285,346	-

2017 (Based on IAS 39)	Funded exposure AED'000	Unfunded exposure AED'000	Gross exposure AED'000	Impaired loans & financing receivables AED'000	Specific provision AED'000	Write-off AED'000	Past dues	
							Upto 89 days AED'000	90 days & above AED'000
Trade	11,791,603	2,238,610	14,030,213	462,568	381,353	147,701	147,963	44,016
Construction	1,311,727	3,428,810	4,740,537	63,986	47,515	1,916	45,825	-
Government	294,959	7,949	302,908	-	-	-	-	-
Manufacturing	3,850,307	759,397	4,609,704	469,886	154,070	83,901	83,677	24,074
Financial institutions	514,081	184,726	698,807	64,941	43,486	-	-	-
Service industries	2,784,471	312,232	3,096,703	230,456	124,494	147,151	10,539	550
Real estate	3,383,357	-	3,383,357	39,629	7,693	-	7,279	-
Individuals	1,389,524	845,558	2,235,082	69,918	54,240	11,698	1,095	-
Gross amount	25,320,029	7,777,282	33,097,311	1,401,384	812,851	392,367	296,378	68,640

Geographic location analysis

Based on the location of the borrower, an analysis of geographic concentrations of credit risk arising out of loans and advances and Islamic financing receivables as at 31 December 2018 and 2017 is shown below:

2018	Funded exposure AED'000	Unfunded exposure AED'000	Gross exposure AED'000	Gross exposure Stage 3 AED'000	ECL Stage 3 AED'000	Write-off AED'000	Past dues	
							Upto 89 days AED'000	90 days & above AED'000
UAE	25,931,435	6,873,491	32,804,926	1,403,282	809,461	612,031	166,051	-
GCC	70,960	74,432	145,392	-	-	48,833	-	-
Europe	768,335	19,565	787,900	-	-	-	73,460	-
Americas	529,559	2,695	532,254	-	-	-	29,649	-
Others	66,944	658,388	725,332	-	-	-	16,186	-
Gross amount	27,367,233	7,628,571	34,995,804	1,403,282	809,461	660,864	285,346	-

2017 (Based on IAS 39)	Funded exposure AED'000	Unfunded exposure AED'000	Gross exposure AED'000	Impaired loans & financing receivables AED'000	Specific provision AED'000	Write-off AED'000	Past dues	
							Upto 89 days AED'000	90 days & above AED'000
UAE	24,529,583	7,361,207	31,890,790	1,336,443	769,365	392,367	296,378	68,640
GCC	133,212	148,064	281,276	64,941	43,486	-	-	-
Europe	400,400	15,414	415,814	-	-	-	-	-
Americas	233,873	6,889	240,762	-	-	-	-	-
Other	22,961	245,708	268,669	-	-	-	-	-
Total	25,320,029	7,777,282	33,097,311	1,401,384	812,851	392,367	296,378	68,640

Currency wise analysis

The Group's credit exposure by currency type is as follows:

	2018			2017		
	Funded exposure AED'000	Unfunded exposure AED'000	Gross exposure AED'000	Funded exposure AED'000	Unfunded exposure AED'000	Gross exposure AED'000
AED	21,466,477	5,498,427	26,964,904	20,181,150	5,147,927	25,329,077
USD	4,711,446	1,889,414	6,600,860	3,931,849	2,359,258	6,291,107
EUR	32,242	134,277	166,519	18,562	164,784	183,346
GBP	1	4,002	4,003	64	6,849	6,913
XAU	1,137,161	15,081	1,152,242	1,167,091	-	1,167,091
Others	19,906	87,370	107,276	21,313	98,464	119,777
Total	27,367,233	7,628,571	34,995,804	25,320,029	7,777,282	33,097,311

5. Financial risk management (continued)
(c) Credit risk (continued)

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of the counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are monitored and quantified as part of the Group's Credit Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals in accordance with the approved credit framework.

Collateral and credit enhancements

In line with Basel and IFRS 9 standards, the Credit Risk Management Framework (CRMF) outlines the basis pertaining to the eligibility, valuation, roles and responsibilities of various departments and overall management of collateral in order to adopt effective credit risk mitigation mechanism and maximize the use of eligible collateral.

The eligible collateral under IFRS 9 helps in arriving at EAD and LGD for Expected Credit Loss (ECL) calculations. As

for measuring ECL, the expected cash shortfalls will reflect via LGD the cash flows expected from collateral realization provided the same are as per contractual terms.

The Group manages credit exposure by obtaining security considering in view the adequacy and enforceability of collateral or guarantees, where appropriate, and in certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The amount and type of collateral depends on assessments of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees, pledge over listed shares and mortgage and liens over properties or other securities over assets. Pledged interests over vehicles, ships and equipment are also obtained. Collateral generally is not held against non-trading investments and due from banks and financial institutions.

Management monitors the market value of collateral, and wherever necessary the Group requests additional collateral in accordance with the underlying agreement, and considers collateral obtained during its review of the adequacy of the allowance for impairment losses.

Estimates of fair value are generally assessed on a periodic basis in accordance with the respective credit policies. An estimate of fair value of collateral and other security enhancements held against the loan and Islamic financing portfolio is shown on the following page:

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Stage 3				
Pledged deposits	180,560	209,894	9,221	8,679
Debt / equity securities	-	-	-	-
Property	575,842	298,608	412,500	167,446
Others	646,880	892,882	-	-
Gross amount	1,403,282	1,401,384	421,721	176,125
Life time ECL (Stage 3) / Specific provision	(809,461)	(812,851)	-	-
Carrying amount	593,821	588,533	421,721	176,125
Stage 1 and 2				
Pledged deposits	6,738,536	6,399,105	2,284,374	1,926,617
Debt / equity securities	142,389	122,128	120,515	100,163
Property	10,002,600	7,990,074	7,623,531	6,435,201
Others	9,080,426	9,407,338	-	-
Gross amount	25,963,951	23,918,645	10,028,420	8,461,981
12-month ECL (Stage 1) and Life time ECL (Stage 2) / Collective provision	(355,361)	(441,351)	-	-
Carrying amount	25,608,590	23,477,294	10,028,420	8,461,981
Total	26,202,411	24,065,827	10,450,141	8,638,106
Renegotiated exposure	2,751,380	2,228,190	1,100,734	884,964

Particulars	Contingent liabilities		Collaterals	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Pledged deposits	5,033,468	4,755,644	700,466	1,028,010
Others	2,595,103	3,021,638	587,554	505,869
Total	7,628,571	7,777,282	1,288,020	1,533,879

Credit quality

The credit quality of the loans and advances and Islamic financing receivables is managed by the Group using internal credit ratings comprising 22 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Group's books are rated against a set of predetermined standards which are in line with the UAE Central Bank guidelines.

The Group's Credit Risk Rating Methodology reflects its assessment of the probability of default of individual counterparties mapped to the ratings specified by the External Credit Assessment Institutions (ECAIs). The mapping is based on a statistical model which takes into consideration the industry weights, country specific factors and the sensitivity of the counter party to systematic risk. Risk classification / grading system has been presented on the following page:

5. Financial risk management (continued)
(c) Credit risk (continued)

Risk Grade	2018 AED'000	2017 AED'000
Stage 1 and 2 (RR 1-19)		
Grades 1-18: Performing or normal	25,005,837	23,176,434
Grade 19: Other Loans Especially Mentioned (OLEM)	958,114	742,211
	25,963,951	23,918,645
Stage 3 (RR 20-22)		
Grade 20: Sub-standard	215,117	499,246
Grade 21: Doubtful	439,527	432,172
Grade 22: Loss	748,638	469,966
	1,403,282	1,401,384
Total	27,367,233	25,320,029

The following table contains an analysis of the credit risk exposure of financial assets. The gross carrying amount of financial assets, including accrued interest, below represents the Group's maximum exposure to credit risk on these assets:

31 December 2018	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Due from banks and financial institutions	1,358,499	64,119	-	1,422,618
Allowances for impairment (ECL)	(4,781)	(1,949)	-	(6,730)
Carrying amount	1,353,718	62,170	-	1,415,888
Debt investments and Islamic instruments	2,597,921	-	-	2,597,921
Allowances for impairment (ECL)	(1,346)	-	-	(1,346)
Carrying amount	2,596,575	-	-	2,596,575
Loans and advances and Islamic financing receivables and acceptances	24,992,897	3,182,337	1,538,965	29,714,199
Allowances for impairment (ECL)	(166,819)	(188,542)	(809,461)	(1,164,822)
Carrying amount	24,826,078	2,993,795	729,504	28,549,377
Off-balance sheet	6,433,141	1,163,486	31,944	7,628,571
Allowances for impairment (ECL)	(23,983)	(5,171)	(14,888)	(44,042)
Carrying amount	6,409,158	1,158,315	17,056	7,584,529

The analysis of ECL by stage for loans and advances and Islamic financing receivables and acceptances, due from banks and financial institutions, debt investments and Islamic instruments and off-balance sheet items is as follows:

AED'000	2018					2017
	Loans and advances and Islamic financing receivables and acceptances	Due from banks and financial institutions	Investments and Islamic instruments	Off-balance sheet	Total	
Stage 3 / Specific provision	809,461	-	-	14,888	824,349	812,851
Stage 2	188,542	1,949	-	5,171	195,662	-
Stage 1	166,819	4,781	1,346	23,983	196,929	-
Collective provision (IAS 39)	-	-	-	-	-	441,351
ECL / Collective provision	355,361	6,730	1,346	29,154	392,591	441,351
Total ECL	1,164,822	6,730	1,346	44,042	1,216,940	1,254,202

The following tables explain the changes in the outstanding balances, including accrued interest, and the loss allowance between the beginning and the end of 2018.

Loans and advances and Islamic financing receivables and acceptances

Outstanding balance AED'000	Stage 1	Stage 2	Stage 3	Total
Balance at 01 January 2018	22,152,732	3,236,893	1,656,826	27,046,451
<i>Changes due to financial assets recognised in the opening balance that have:</i>				
Transferred from Stage 1	(461,477)	403,866	57,611	-
Transferred from Stage 2	-	(322,675)	322,675	-
Transferred from Stage 3	-	3,498	(3,498)	-
Originated / derecognised during the year	3,301,642	(139,245)	166,215	3,328,612
Written-off during the year	-	-	(660,864)	(660,864)
Balance at 31 December 2018	24,992,897	3,182,337	1,538,965	29,714,199

ECL AED'000	Stage 1	Stage 2	Stage 3	Total
Balance at 01 January 2018	109,607	186,257	1,108,686	1,404,550
<i>Changes due to financial assets recognised in the opening balance that have:</i>				
Transferred from Stage 1	(3,793)	13,300	19,036	28,543
Transferred from Stage 2	-	(29,552)	171,585	142,033
Transferred from Stage 3	-	200	(1,773)	(1,573)
Originated / derecognised during the year including changes in PDs / LGDs / EADs	61,005	18,337	172,791	252,133
Net allowance for impairment losses	57,212	2,285	361,639	421,136
Written-off during the year	-	-	(660,864)	(660,864)
Balance at 31 December 2018	166,819	188,542	809,461	1,164,822

5. Financial risk management (continued)
(c) Credit risk (continued)

Off-balance sheet exposures

Outstanding balance AED'000	Stage 1	Stage 2	Stage 3	Total
Balance at 01 January 2018	6,491,737	1,237,523	48,022	7,777,282
<i>Changes due to financial assets recognised in the opening balance that have:</i>				
Transferred from Stage 1	(178,647)	178,545	102	-
Transferred from Stage 2	-	(29,456)	29,456	-
Transferred from Stage 3	-	735	(735)	-
Originated / expired during the year	120,051	(223,861)	(44,901)	(148,711)
Balance at 31 December 2018	6,433,141	1,163,486	31,944	7,628,571

ECL AED'000	Stage 1	Stage 2	Stage 3	Total
Balance at 01 January 2018	20,545	5,244	4,937	30,726
<i>Changes due to financial assets recognised in the opening balance that have:</i>				
Transferred from Stage 1	(315)	1,050	56	791
Transferred from Stage 2	-	(186)	16,180	15,994
Transferred from Stage 3	-	5	(327)	(322)
Originated / expired during the year including changes in PDs / LGDs / EADs	3,753	(942)	(5,958)	(3,147)
Net allowance for impairment losses	3,438	(73)	9,951	13,316
Balance at 31 December 2018	23,983	5,171	14,888	44,042

As set out in note 5(c), majority of due from banks and financial institutions and debt investments and Islamic instruments are in stage 1 throughout the year and, therefore have insignificant ECL. Accordingly, there have been no significant movements between stages in respect of these financial assets.

Loans and advances and Islamic financing receivables with renegotiated terms

Loans and advances and Islamic financing receivables with renegotiated terms are loans and advances and Islamic financing receivables that have been rescheduled or restructured and where the Group has made concessions that it would not otherwise consider. Rescheduled loans are classified under stage 1 attracting 12-month ECL, whereas restructured loans are classified under Stage 2 attracting lifetime ECL – not credit impaired impact.

When renegotiation happens, the Group assesses whether or not the new terms are substantially different to the original

terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.
- Discounted cash flows (DCF) after renegotiation are equal to or greater than the DCF at the time the facility was granted.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether SICR has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the obligor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset.

As a guideline, ascertain criteria to differentiate between Restructured and Rescheduled accounts are defined in the Group respective risk policy.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 (Lifetime ECL – credit impaired) to Stage 2 (Lifetime ECL – not credit impaired) to Stage 1 (12 month ECL). This is only applicable for assets which have performed as per the new terms in accordance with the curing criteria as defined in note 4(e).

Allowances for impairment

Monthly, the Group establishes an allowance for impairment losses that represents its expected credit losses in the categories of financial assets defined in section 4(e) above. The general provision on total credit risk weighted assets is maintained in line with the UAE Central Bank's requirements. The methods of assessment of allowances for impairment have been summarized in note 4.

As part of the IRB approach, the Bank has designed and implemented an independently separate ratings scales pertaining to corporate banking and business banking, that are based on the observed historical defaults in the Bank's credit portfolio through the cycle which has determined the mean probability of default for the credit portfolio and have assigned individual probabilities of default to each credit risk grade.

Together with the Exposure at Default and Loss Given Default, the Bank determines the Expected Loss of each of its corporate and commercial borrower. In order to monitor the risk migration of its borrowers, the Bank computes the one year credit default migration through transitional matrices while ensuring that the potential impact of the one year default is adequately covered by the overall credit provisioning level and the capital adequacy level.

Write-off policy

The Group writes off loans and advances and Islamic financing receivables balances (and any related allowances for impairment losses) when it has generally exhausted all possible efforts for collection and determines that the loans and advances and Islamic financing receivables are no longer collectible.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially or fully written-off due to no reasonable expectation of recovery.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It includes the risk of inability to fund assets at appropriate maturities and rates, and inability to liquidate assets at a reasonable price and in an appropriate time frame, and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach to managing liquidity is to maintain, as far as possible, sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or putting the Group's reputation at risk.

Management of liquidity risk

Treasury is entrusted with the responsibility of ensuring compliance with both statutory liquidity requirements and internal risk limits. All liquidity risk management policies and procedures are subject to review and approval by Asset and Liability Committee (ALCO), Management Risk Committee (MRC), Board Risk Committee (BRC) and the Board.

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the UAE Central Bank representing 16.9% (2017: 18.9%) of total assets which also include mandatory cash reserve deposits with the UAE Central Bank. Short-term liquid assets also include investment grade marketable securities, due from banks and financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained both under normal conditions and simulated stress scenarios.

The Group uses lending to stable resource ratio (LSRR) of 1:1 and eligible liquid assets ratio (ELAR) of 10%, which represents high quality liquid assets as stipulated by the UAE Central Bank, as key risk indicators and monitors them on a regular basis. The Group uses more prudent internal LSRR measure of 0.925:1 as a trigger point for action planning. During the year, these ratios were prudently managed:

5. Financial risk management (continued)
(d) Liquidity risk (continued)

	ELAR		LSRR	
	2018	2017	2018	2017
12 month - Average	19.50%	21.27%	89.92%	88.06%
12 month - Highest	21.88%	24.05%	91.80%	91.41%
12 month - Lowest	18.15%	18.75%	86.48%	84.81%

The Group manages its concentration of deposits by continuing to widen the customer base and sources of liabilities and setting in place caps on individual size and varying maturities.

Liquidity positions, key risk indicators and actions are discussed at ALCO to monitor and review achievement of short and long term liquidity strategies and thresholds.

Liquidity risk appetite is prudently and proactively reviewed taking into consideration the market events and relevant risk management standards. Adherence to the longer stress period is being achieved through reliance on both higher quality and adequate level of liquid assets. The Group monitors 30 days stress test under two scenarios of local market crisis and one / two notch downgrade of NBF Issuer Credit Rating in line with its liquidity risk appetite. The Bank has also defined a contingency funding plan to manage any liquidity crisis situation.

As part of the ICAAP, the Bank assesses the impact on capital adequacy of liquidity risk including concentrations by

carrying out stress tests. In preparation for compliance with Basel III requirements, the Group has implemented a system for calculating Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in line with the UAE Central Bank's regulations and is working on strengthening processes and qualitative requirements proactively. At 31 December 2018, LCR and NSFR stood at **319%** (2017: 270%) and **105%** (2017: 107%) respectively.

The following table shows the Group's assets and liabilities and commitments on the basis of their earliest possible contractual maturity and / or expected date of settlement or realization. For example, demand deposits from customers are expected to maintain a stable balance and term deposits are often rolled over on maturity. Loans and advances and Islamic financing receivables are partly revolving in nature. Cash and balances with the UAE Central Bank include certificates of deposit which are readily convertible into cash under repurchase arrangements with the UAE Central Bank. Investments portfolio include FVOCI investments which can be redeemed before their contractual maturity.

At 31 December 2018	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with the UAE Central Bank	4,847,964	900,000	700,000	200,000	75,000	-	6,722,964
Due from banks and financial institutions	759,416	420,821	192,211	42,914	-	-	1,415,362
Investments and Islamic instruments	-	221,806	186,524	188,007	1,959,950	157,160	2,713,447
Loans and advances and Islamic financing receivables	7,567,149	5,170,453	2,310,950	1,484,997	6,500,194	3,168,668	26,202,411
Property and equipment and capital work-in-progress	-	-	-	-	-	292,048	292,048
Other assets	497,889	1,026,902	493,326	409,752	9,185	-	2,437,054
Total assets	13,672,418	7,739,982	3,883,011	2,325,670	8,544,329	3,617,876	39,783,286
Due to banks	319,792	174,522	-	75,000	-	-	569,314
Customer deposits and Islamic customer deposits	12,803,013	6,112,492	4,574,566	5,006,279	1,966,121	10,000	30,472,471
Term borrowings	-	293,840	-	110,190	459,125	-	863,155
Other liabilities	497,889	1,302,287	493,326	409,752	53,226	-	2,756,480
Total shareholders' equity	-	-	-	-	-	5,121,866	5,121,866
Total liabilities and shareholders' equity	13,620,694	7,883,141	5,067,892	5,601,221	2,478,472	5,131,866	39,783,286
On-Balance Sheet Gap	51,724	(143,159)	(1,184,881)	(3,275,551)	6,065,857	(1,513,990)	-
Cumulative Gap	51,724	(91,435)	(1,276,316)	(4,551,867)	1,513,990	-	-
At 31 December 2017							
Total Assets	12,312,314	7,598,694	3,888,088	3,044,323	7,072,077	2,740,880	36,656,376
Total liabilities and shareholders' equity	13,011,150	7,669,281	5,192,652	4,220,172	1,262,483	5,300,638	36,656,376
On-Balance Sheet Gap	(698,836)	(70,587)	(1,304,564)	(1,175,849)	5,809,594	(2,559,758)	-
Cumulative Gap	(698,836)	(769,423)	(2,073,987)	(3,249,836)	2,559,758	-	-

5. Financial risk management (continued)
(d) Liquidity risk (continued)

The table below incorporates guarantees, letters of credit and notional amounts of derivative financial instruments, entered into by the Group, outstanding at the date of consolidated statement of financial position, analyzed by the earliest period these can be called. The notional amount is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicators of either the market risk or the credit risk. The amounts set out below do not represent expected cash flows.

At 31 December 2018	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	6,022,132	-	-	-	-	-	6,022,132
Letters of credit	115,537	476,993	669,661	308,555	35,693	-	1,606,439
Forward foreign exchange contracts	10,245,815	2,876,488	388,537	1,136,848	-	-	14,647,688
Currency options	283,803	329,669	545,690	3,059,663	4,151,933	-	8,370,758
Interest rate derivatives	1,757	-	1,101,900	582,988	6,248,830	1,655,773	9,591,248
Commodity derivatives	87,003	307,130	5,190	305,641	-	-	704,964
Total	16,756,047	3,990,280	2,710,978	5,393,695	10,436,456	1,655,773	40,943,229
At 31 December 2017							
Guarantees	5,500,822	-	-	-	-	-	5,500,822
Letters of credit	149,763	1,081,632	380,866	70,439	593,760	-	2,276,460
Forward foreign exchange contracts	5,691,910	3,368,077	1,667,983	2,445,907	557,613	-	13,731,490
Currency options	185,114	419,596	627,149	929,593	3,628,924	-	5,790,376
Interest rate derivatives	-	434,000	7,347	33,032	3,042,976	1,027,770	4,545,125
Commodity derivatives	31,676	337,633	2,061	16,023	20,289	-	407,682
Total	11,559,285	5,640,938	2,685,406	3,494,994	7,843,562	1,027,770	32,251,955

The positive / negative fair values of derivative financial instruments, entered into by the Group, at the reporting date are as below:

Derivatives	2018			2017		
	Positive fair value AED'000	Negative fair value AED'000	Net AED'000	Positive fair value AED'000	Negative fair value AED'000	Net AED'000
Forward foreign exchange contracts	37,149	45,188	(8,039)	25,428	30,804	(5,376)
Currency options	10,219	10,194	25	13,479	13,479	-
Interest rate derivatives	56,378	59,496	(3,118)	27,167	26,342	825
Commodity derivatives	39,060	42,956	(3,896)	19,436	19,512	(76)
	142,806	157,834	(15,028)	85,510	90,137	(4,627)

(e) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates, commodity prices and credit spreads will affect the Group's income and/or the value of its holdings of financial instruments.

Management of market risks

The Group distinguishes its exposure to market risk between trading and non-trading portfolios. Trading portfolio includes positions arising from market-making, proprietary positions and other marked-to-market positions so designated. Non-trading portfolio includes positions other than those with the trading intent that arises from interest rate management of the Group's assets and liabilities and available-for-sale and held-to-maturity investments.

The Group has well-defined policies, procedures and trading limits in place to ensure oversight of Treasury's day-to-day operations, in accordance with the Board's defined risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's overall market risk appetite. The Group

manages market risk positions within the risk management limits set out by the Board. Overall responsibility for monitoring market risk is vested with the MRC.

Investment price risk

The risk originates primarily from the investment portfolio of the Group which is managed on a fair value basis. The Group manages the risk through diversification of investments in terms of counterparty, industry and country. The Group monitors and reviews portfolio performance on a monthly basis.

The Investment Committee (IC) reviews sensitivity of investment price volatility on annualized income. The overall stop loss limit is set at 15% of the purchase price or last year end price, whichever is recent for Fixed Income Instrument (FI) and 20% of the purchase price or last year end price, whichever is recent for equities. When the loss reaches 10% in case of FI and 15% in case of Equities, Investment Management Team escalates to IC to decide the strategy of either holding the investment or its disposal. Any loss in excess of 15% for FI and 20% for Equities will be escalated to the Board.

The table below shows the impact of decline in fair value of investments by 10% on net income and regulatory capital and equity for 2018 and 2017:

Investments classified as FVTPL	Assumed level of change %	Impact on net income and regulatory capital 2018 AED'000	Impact on net income and regulatory capital 2017 AED'000
Reference benchmarks:			
Fair value of managed funds	10%	4,459	661
Investments classified as FVOCI	Assumed level of change %	Impact on equity 2018 AED'000	Impact on equity 2017 AED'000
Reference benchmarks:			
Quoted debt securities / Islamic Sukuks	10%	152,953	121,314
Other investments	10%	57,477	28,825

5. Financial risk management (continued)
(e) Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currencies which are closely monitored. Exceptions, if any, are only allowed by seeking prior approval of ALCO and MRC supported by a business case and ratification by the Board. During the year, the Group complied with the open position limits and exception approval process.

The Group carries out sensitivity analysis on the basis of 5% shift in exchange rate and analyzes their impact on annualized exchange income. ALCO reviews currency limits based on these sensitivities.

The UAE currency is pegged to the US Dollar and this is considered while setting the limits and analyzing the sensitivity impact.

At 31 December, the Group's open positions [long / (short)] and potential impact of a shift in exchange rate on the statement of income are as follows:

Currency	USD	EUR	Others
Open position			
2018 (AED in 000's)	(260,840)	(3,767)	4,429
2017 (AED in 000's)	(83,901)	6,766	21,179
Assumed change in exchange rates	5%	5%	5%
Impact on exchange income from increase in exchange rates:			
2018 (AED in 000's)	(13,042)	(188)	221
2017 (AED in 000's)	(4,195)	338	1,059
Impact on exchange income from decrease in exchange rates:			
2018 (AED in 000's)	13,042	188	(221)
2017 (AED in 000's)	4,195	(338)	(1,059)

At 31 December 2018, the impact on exchange income due to change in exchange rate by 5% is $\pm 9.48\%$ (2017: $\pm 2.78\%$). Excluding the impact of US\$ open position, the impact is $\pm 0.02\%$ (2017: $\pm 1.39\%$).

Interest rate risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

The Group's treasury manages interest rate risk principally through monitoring interest rate gaps and matching the interest re-pricing profile of financial assets and liabilities. The Group's long term financial assets and liabilities are priced generally on a floating rate basis, which tracks the changes in market interest rates. Long term loans and advances and Islamic financing receivables that are priced on a fixed rate basis constitute 3.03% (2017: 3.57%) of the total loans and advances and Islamic financing receivables portfolio.

The Group measures the interest rate sensitive gaps across tenors considering the availability of a contractual ability to re-price all its assets and liabilities. The sensitivity analysis i.e. the impact of a parallel shift in interest rate curves on net interest income (NII) and equity is ascertained and presented to ALCO for review on a monthly basis. Strategies and actions required to mitigate this risk, if any, are approved and monitored by ALCO and executed by Treasury. The Group carries out sensitivity analysis on the net interest income for one year assuming changes (whether increase or decrease) in interest rates. An analysis of the Group's sensitivity to an increase or decrease in market interest rates based on the financial assets and financial liabilities, denominated in various currencies, held at 31 December, assuming no asymmetrical movement in yield curves and a constant statement of financial position, is as follows:

Currency	AED	USD	EUR	Others	Total
Assumed change in interest / profit rates	±100 bps	±100 bps	±100 bps	±100 bps	±100 bps
Impact on net interest income and net income from Islamic financing and investment activities from increase in interest / profit rates					
2018 (AED in 000's)	109,781	5,419	322	(7,481)	108,041
2017 (AED in 000's)	80,541	3,599	607	(3,804)	80,943
Impact on net interest income and net income from Islamic financing and investment activities from decrease in interest / profit rates					
2018 (AED in 000's)	(109,783)	(5,465)	(305)	7,512	(108,041)
2017 (AED in 000's)	(80,491)	(3,698)	(607)	3,903	(80,893)

An impact of 5% or higher on regulatory capital is considered as a trigger event based on which an action plan is agreed. At 31 December, the impact of 25 bps, 50 bps and 100 bps shift analysis on net interest income and net income from Islamic financing and investment activities and regulatory capital is as follows:

Impact on net interest income and net income from Islamic financing and investment activities

bps	2018		2017	
	Upward shift	Downward shift	Upward shift	Downward shift
25	2.49%	- 2.49%	2.21%	- 2.21%
50	4.97%	- 4.97%	4.41%	- 4.41%
100	9.94%	- 9.94%	8.82%	- 8.82%

Impact on regulatory capital

bps	2018		2017	
	Upward shift	Downward shift	Upward shift	Downward shift
25	0.53%	- 0.53%	0.36%	- 0.36%
50	1.06%	- 1.06%	0.73%	- 0.73%
100	2.11%	- 2.11%	1.46%	- 1.46%

The Group also conducts interest rate stress testing based on modified duration approach. The results of the shift analysis are reviewed monthly by ALCO, which along with Marketing Committee (MC) and MRC has the overall responsibility for managing pricing policy.

5. Financial risk management (continued)
(e) Market risk (continued)

The Group's interest rate gap position on financial assets and liabilities based on the earlier of contractual re-pricing or maturity date is as follows:

At 31 December 2018	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Cash and balances with the UAE Central Bank	2,800,000	900,000	700,000	200,000	75,000	-	2,047,964	6,722,964
Due from banks and financial institutions	173,777	455,009	192,211	49,644	-	-	544,721	1,415,362
Investments and Islamic instruments	159,018	755,034	146,813	187,554	1,200,341	152,581	112,106	2,713,447
Loans and advances and Islamic financing receivables	11,821,120	9,159,854	2,925,734	924,823	571,636	558,609	240,635	26,202,411
Other assets	-	-	-	-	-	-	2,420,398	2,420,398
Total financial assets	14,953,915	11,269,897	3,964,758	1,362,021	1,846,977	711,190	5,365,824	39,474,582
Due to banks	319,792	174,522	-	75,000	-	-	-	569,314
Customer deposits and Islamic customer deposits	5,334,944	6,465,057	4,499,516	4,937,683	1,966,121	10,000	7,259,150	30,472,471
Term borrowings	183,650	569,315	110,190	-	-	-	-	863,155
Other liabilities	-	-	-	-	-	-	2,625,846	2,625,846
Total financial liabilities	5,838,386	7,208,894	4,609,706	5,012,683	1,966,121	10,000	9,884,996	34,530,786

Interest rate sensitivity gap

On-balance sheet	9,115,529	4,061,003	(644,948)	(3,650,662)	(119,144)	701,190	(4,519,172)
Off-balance sheet	2,427,991	5,815,092	408,691	-	939,475	-	23,723,408
Cumulative	11,543,520	21,419,615	21,183,358	17,532,696	18,353,027	19,054,217	38,258,453

At 31 December 2017

Cumulative interest rate

sensitivity gap	7,602,972	13,834,338	13,620,698	11,607,177	12,645,580	13,432,479	29,258,786
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Interest rate yields

The average earning on placements and balances with banks was 1.92% (2017: 1.33%), on loans and advances and Islamic financing receivables was 5.78% (2017: 5.28%) and on the investment portfolio was 2.11% (2017: 2.83%). The average cost of customer deposits and Islamic customer deposits was 2.07% (2017: 1.79%) and of due to banks and term borrowings was 3.06% (2017: 2.65%).

Derivative financial instruments

In the ordinary course of business, the Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- (i) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates,

credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying')

- (ii) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- (iii) it is settled at a future date.

Derivative financial instruments which the Group enters into includes forward foreign exchange contracts, interest rate derivatives, commodity derivatives and currency options.

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in interest rates.

The Group uses interest rate swaps to hedge interest rate risks. In all such cases, the hedging relationship and objectives including details of the hedged item and hedging instrument are formally documented and the transactions are accounted for based on the type of hedge.

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

Fair values

31 December 2018	Assets AED'000	Liabilities AED'000	Notional AED'000
Derivatives held as fair value hedges			
Interest rate swaps	400	3,480	330,570
Total derivative financial instruments	400	3,480	330,570

31 December 2017	Assets AED'000	Liabilities AED'000	Notional AED'000
Derivatives held as fair value hedges			
Interest rate swaps	557	-	150,593
Total derivative financial instruments	557	-	150,593

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities. Potential loss may be in the form of financial loss or other damages, for example loss of reputation and public confidence that will impact the Group's credibility and ability to do business.

The Group's objective in managing operational risk is to balance avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness.

The Group has defined policies and procedures which are followed to manage operational risk through the Operational Risk Committee (ORC) forum. Compliance with Group standards is supported by a programme of periodic risk and internal control assessments and reviews undertaken by Internal Audit and Operational Risk and Compliance. The results of reviews are discussed with the businesses and functional units to which they relate and regular reports are provided to the Internal Audit, MRC, Board Risk Committee (BRC) and the Board.

The regulatory risk capital charge allocation with respect to Operational Risk is computed based on the Standardized Approach. However, the Bank, as part of the ICAAP, computes the risk capital charge allocation for Pillar 2 risks related to Strategic Risk, Reputational Risk, Residual Risk and Settlement Risk through an internally designed but externally independently validated scorecard approach which encompasses a broad range of best industry practices including the regulatory requirements and guidance issued from time to time, locally and internationally.

(g) Management of capital

The Group's lead regulator, the UAE Central Bank, sets and monitors regulatory capital requirements. The requirements of capital for subsidiaries, NBF Financial Services FZC, NBF Capital Limited and NBF Markets (Cayman) Limited are determined by the Free Zone Authority of Fujairah, DFSA and Cayman Island Government General Registry respectively.

The Group's objectives and strategy when managing capital are:

- To safeguard the Group's ability to continue as a going concern and to increase returns for shareholders;
- To maintain adequate level and achieve an optimum structure for the Group's capital commensurate to its strategy, risk profile and relative positioning in the market;
- To comply with regulatory capital requirements set by the Central Bank of the UAE;
- To efficiently allocate capital to various businesses leading to enhanced shareholder value and optimal risk reward;
- To ensure effective internal organisation and processes and to assess and manage material risks on an ongoing basis; and
- To provide for any unforeseen losses.

The Group's capital management is carried out centrally and determines the level of risk-weighted asset growth and the optimal amount and mix of capital required to support planned business growth.

The Group and its subsidiaries have complied with all regulatory capital requirements throughout the year.

In implementing capital requirements, the Group calculates its capital adequacy ratio in accordance with the new 'Capital Adequacy Regulations' issued by the UAE Central Bank during 2017 for implementation from 31 December 2017. The

5. Financial risk management (continued)
(g) Management of capital (continued)

UAE Central Bank introduced the implementation of Basel III reporting which the Group has adopted and has also developed and implemented risk management measurement tools and robust practices to become a Basel II Foundation Internal Rating Based Approach (FIRB) compliant bank. The UAE Central Bank places considerable emphasis on the ICAAP and the Group has developed an economic capital model to comply with the UAE Central Bank requirements.

Regulatory capital

The Bank's risk weighted assets (RWA) are weighted on the basis of relative credit, market, and operational risks. Credit risk includes both on and off-balance sheet risks. In accordance with the Basel III – Standardized Approach, the Bank is following the standardized measurement approach for credit, market and operational risk, under the existing Pillar 1 of Basel II requirements with the addition of the respective changes pertinent to capital supply.

The quantitative requirements, based on the regulations / guidelines, have been detailed below:

- i. Total regulatory capital (net of regulatory adjustments) – at least 10.5% of RWAs – comprises of two tiers:

- a. Tier 1 capital – at least 8.5% of RWA, composed of:

- Common equity Tier 1 (CET1) – at least 7.0% of RWA; and
- Additional Tier 1 (AT1)

CET1 includes ordinary share capital, statutory reserve, special reserve, retained earnings and fair value reserves relating to unrealized gains on investments classified as FVOCI with a hair-cut of 55%; and AT1 comprises of Tier 1 capital notes.

- b. Tier 2 capital – It includes collective impairment provision and sub-ordinated facilities. Eligible general provision shall not exceed 1.25% of total credit risk weighted assets.

- ii. Banks must maintain a Capital Conservation Buffer (CCB) of 2.5% of RWAs in the form of CET1 capital. UAE Central Bank may also require banks to implement Countercyclical Buffer (CCyB), to protect the banks from periods of excess aggregate credit growth. CCyB must be met by using CET1 capital and the level may vary between 0-2.5% of RWAs.

Minimum transitional arrangements as per UAE Central Bank

Capital element	Basel III 2018	Basel III 2017
Minimum common equity tier 1 ratio	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%
Capital conservation buffer	1.875%	1.25%

Capital stress testing

The Group carried out and submitted to the UAE Central Bank stress testing exercise in accordance with the macroeconomic and business scenarios prescribed by the UAE Central Bank through its guidelines on '2018 Stress Testing Guidance for Participating Banks' issued on 24 July 2018. The results also included the mitigation plan / management action in response to the impact of the stress scenario on the capital adequacy of the Group. The Group passed the UAE Central Bank stress test.

The stress testing exercise achieves the following objectives:

- Provides a forward looking assessment of risk under a stressed scenario;
- Impact of various Macroeconomic Variables for UAE markets;
- Elaborates the methodologies, and the assumptions undertaken in the process;
- Assisting the Group in shaping its strategy, by gauging the capital impact due to stress scenarios;

- Enable the Group to assess extreme risk scenarios, along with contingency plan for such events; and
- Reporting results to the senior management and the Board of Directors for their review and approval to facilitate contingency planning.

Capital allocation

- The Group also assesses internally its capital requirements taking into consideration its growth requirements and business plans, and quantifies its regulatory and risk/ economic capital requirements within its integrated ICAAP Framework. Risks such as residual risk, concentration risk, liquidity risk, interest rate risk in banking book (IRRBB), settlement risk, reputational risk, strategic risk, and cyber risk form part of ICAAP quantification.
- The Group also calculates Risk Adjusted Return on Capital (ROC) for credit applications that are priced on a risk-adjusted basis.

Capital base	2018 AED'000	2017 AED'000
CET1 capital		
Share capital	1,644,455	1,366,527
Statutory reserve	936,053	549,992
Special reserve	506,492	444,992
Retained earnings	1,173,024	1,430,727
Accumulated other comprehensive income	(27,932)	(4,089)
CET1 total	4,232,092	3,788,149
Additional tier 1 (AT1) capital		
Tier 1 capital notes	500,000	1,000,000
Total tier 1	4,732,092	4,788,149
Tier 2 capital		
Subordinated facilities (note 14.2)	-	400,000
Collective impairment provision	385,535	365,345
Total tier 2	385,535	765,345
Total capital base (a)	5,117,627	5,553,494

Risk weighted assets	2018 Risk-weighted equivalent AED'000	2017 Risk-weighted equivalent AED'000
Credit risk	30,842,794	29,227,625
Market risk	66,694	30,893
Operational risk	2,690,987	2,464,327
Total risk weighted assets (b)	33,600,475	31,722,845
Capital adequacy ratio (a) / (b) - %	15.2	17.5
Tier 1 ratio - %	14.1	15.1
Common equity tier 1 ratio (CET 1) - %	12.6	11.9

The Group prepares an ICAAP document and submits to the UAE Central Bank on an annual basis. The Group's ICAAP report includes assessment and review of the following, keeping in mind a forward-looking approach:

- Risk management framework to assess, measure, monitor and control all the material elements of risks;
- Risk profile and business strategy;
- Capital required to cover all material risks;
- Stress testing risks to assess capital requirement under stressed conditions; and
- Capital planning and budgeting.

Apart from credit, market and operational risk covered in Pillar 1, the ICAAP report covers other material risks like

residual risk, concentration risk, liquidity risk, interest rate risk in banking book (IRRBB), settlement risk, reputational risk, strategic risk, and cyber risk. ICAAP Stress Testing details, assumptions, methodology and results are documented in a separate stress testing manual that covers all aforementioned Pillar 1 and Pillar 2 risks. The Pillar II CAR for the year ended 31 December 2018 was 13.2% (2017: 14.9%).

Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the approach mentioned under the UAE Central Bank Basel II Capital Adequacy Framework covering the Standardized Approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

5. Financial risk management (continued)
(g) Management of capital (continued)

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable ECAs, except that, for all GCC sovereigns a 0% weight has been applied.

Claims on public sector entities (PSEs)

Domestic currency claims on GCC non-commercial PSE are treated as claims on GCC sovereigns if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE are treated one grade less favourable than its sovereign i.e. 20% risk weight are applied.

Claims on other foreign non-commercial PSE are treated one grade less favourable than its sovereign. Claims on commercial PSE are treated as claims on corporate.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with the respective credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency are assigned more favourable risk weighting.

Claims on corporate portfolio

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75%, if it meets the criteria mentioned in the UAE Central Bank Basel II guidelines. Claims which do not meet the criteria are assigned risk weights of 100%.

Claims secured by residential property

A preferential risk weight of 35% is applied on claims that do not exceed AED 10 million and are secured by residential property with Loan-to-Value (LTV) of up to 85%. Other claims secured on residential property are risk weighted at 100%.

Claims secured by commercial property

100% risk weight is applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan and financing (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight where specific provisions are less than 20% of the outstanding amount of the loan and financing; and
- 100% risk weight where specific provisions are equal to or greater than 20% of the outstanding amount of the loan and financing.

Equity portfolios

Equity in banking book is risk weighted at 150%.

Other exposures

These are risk weighted at 100%.

Credit risk and risk weights

2018 (AED'000)	On & off balance sheet Gross outstanding	Credit risk mitigation (CRM)			Risk-weighted assets
		Exposure before CRM	CRM	After CRM	
Claims on sovereigns	7,438,255	7,438,255	-	7,438,255	38,487
Claims on PSEs	222,341	222,341	-	222,341	36,864
Claims on banks	3,151,855	3,151,855	-	3,125,058	1,198,937
Claims on corporates and GREs	30,940,469	30,940,469	2,723,996	13,735,961	24,697,001
Regulatory retail exposures	1,121,236	1,121,236	161,890	1,017,678	717,573
Residential retail portfolio	1,876,638	1,876,638	3,573	1,876,638	1,347,187
Commercial real estate	1,656,914	1,656,914	-	1,656,914	1,656,914
Past due exposures	1,547,268	408,157	4,085	405,797	416,690
Higher-risk categories	5,429	5,429	-	5,429	8,143
Other exposures	1,069,768	1,069,768	-	1,069,768	724,998
Total	49,030,173	47,891,062	2,893,544	30,553,839	30,842,794

2017 (AED'000)	On & off balance sheet Gross outstanding	Credit risk mitigation (CRM)			Risk-weighted assets
		Exposure before CRM	CRM	After CRM	
Claims on sovereigns	6,535,352	6,535,352	-	6,535,085	3,711
Claims on PSEs	190,351	190,351	-	190,351	22,586
Claims on banks	3,654,788	3,654,788	-	3,634,066	1,223,427
Claims on corporates and GREs	29,094,134	29,094,134	2,273,949	9,520,163	23,097,636
Regulatory retail exposures	1,078,090	1,078,090	153,516	968,671	671,514
Residential retail portfolio	1,362,855	1,362,855	1,894	1,362,855	1,006,828
Commercial real estate	1,918,044	1,918,044	-	1,918,044	1,918,044
Past due exposures	1,716,122	696,389	5,567	686,528	726,704
Higher-risk categories	6,910	6,910	-	6,910	10,365
Other exposures	892,910	892,910	-	892,910	546,810
Total	46,449,556	45,429,823	2,434,926	25,715,583	29,227,625

On and off balance sheet exposures include unutilized credit limits which are revocable at the discretion of the Bank amounting to AED 14,080 million (2017: AED 16,040 million).

The Group uses the following ECAIs: Standards & Poor, Moody's and Fitch. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group uses Credit Risk Mitigation techniques (CRM) whereby only cash and bank guarantees are used in the calculation of Pillar 1 Capital requirements.

5. Financial risk management (continued)
(g) Management of capital (continued)

Market risk and risk weights

The Group's capital charge, in respect of market risk in accordance with the Standardized methodology, is as follows:

	2018 AED'000	2017 AED'000
Interest rate risk		
- Specific interest rate risk	486	484
- General interest rate risk	-	-
Equity position risk		
- General equity exposure risk	4,779	-
Foreign exchange risk	1,738	2,759
Option risk	-	-
Total market risk capital charge	7,003	3,243
Market risk – risk weighted assets	66,694	30,893

In line with the Basel Accord, investments designated as fair value through profit or loss form part of the banking book rather than the trading book. Accordingly, the designated investment portfolio has been covered under credit risk.

Capital charge against option risk is nil (2017: nil), as all currency options are covered through back-to-back transactions with the respective counter parties.

Operational risk and risk weights

Capital requirement for operational risk is calculated using the Standardized Approach. The total capital charge is calculated by multiplying the specified eight business lines' three (3) - year average net interest income and net income from Islamic financing and investment activities and net non-interest income by a percentage (beta) assigned to each of the business lines. The beta factors range from 12% to 18%, as specified in the Basel Accord.

6. Financial assets and liabilities

6.1 Classification and measurement

The fair values and carrying values of the financial assets and liabilities at 31 December 2018 are shown below:

2018	At fair value through profit or loss AED'000	At fair value through other comprehensive income AED'000	Amortised cost AED'000	Allowances for impairment (ECL) AED'000	Carrying amount AED'000
Financial assets					
Cash and balances with the UAE Central Bank	-	-	6,722,964	-	6,722,964
Due from banks and financial institutions	-	-	1,422,092	(6,730)	1,415,362
Investments and Islamic instruments	44,591	2,104,303	565,899	(1,346)	2,713,447
Loans and advances and Islamic financing receivables	-	-	27,367,233	(1,164,822)	26,202,411
Other assets	-	-	2,420,398	-	2,420,398
Total financial assets	44,591	2,104,303	38,498,586	(1,172,898)	39,474,582
Financial liabilities					
Due to banks	-	-	569,314	-	569,314
Customer deposits and Islamic customer deposits	7,000	-	30,465,471	-	30,472,471
Term borrowings	-	-	863,155	-	863,155
Other liabilities	-	-	2,581,804	44,042	2,625,846
Total financial liabilities	7,000	-	34,479,744	44,042	34,530,786

2017 (Based on IAS 39)	At fair value through profit or loss AED'000	At fair value through equity AED'000	Held-to- maturity AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets						
Cash and balances with the UAE Central Bank	-	-	-	-	6,916,739	6,916,739
Due from banks and financial institutions	-	-	-	-	1,940,018	1,940,018
Investments and Islamic instruments	6,608	1,501,388	408,326	-	-	1,916,322
Loans and advances and Islamic financing receivables	-	-	-	24,065,827	-	24,065,827
Other assets	-	-	-	-	1,632,907	1,632,907
Total financial assets	6,608	1,501,388	408,326	24,065,827	10,489,664	36,471,813

Financial liabilities

Due to banks	-	-	-	-	627,515	627,515
Customer deposits and Islamic customer deposits	7,000	-	-	-	27,857,997	27,864,997
Term borrowings	-	-	-	-	1,410,075	1,410,075
Other liabilities	-	-	-	-	1,785,113	1,785,113
Total financial liabilities	7,000	-	-	-	31,680,700	31,687,700

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets from their previous measurement categories in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 01 January 2018.

Financial assets	IAS 39 Classification	IFRS 9 Classification	IAS 39 Carrying amount 31 December 2017 AED'000	Reclassifications AED'000	Remeasurements AED'000	IFRS 9 Carrying amount 01 January 2018 AED'000
Cash and balances with the UAE Central Bank	Loans and receivables	Amortised cost	6,916,739	-	-	6,916,739
Due from banks and financial institutions	Loans and receivables	Amortised cost	1,940,018	-	-	1,940,018
Investments and Islamic instruments	Available-for-sale Held-to-maturity FVTPL	FVOCI Amortised cost FVTPL	1,501,388 408,326 6,608	(369,426) 375,531 -	-	1,131,962 783,857 6,608
Loans and advances and Islamic financing receivables	Loans and receivables	Amortised cost	24,065,827	-	(186,816)	23,879,011
Other assets	Loans and receivables	Amortised cost	1,632,907	-	-	1,632,907
Total financial assets			36,471,813	6,105	(186,816)	36,291,102

6. Financial assets and liabilities (continued)

6.2 Fair value measurement – fair value hierarchy:

2018	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
Debt securities / Islamic sukuks	-	1,529,534	-	-
Other investments	-	613,931	5,429	-
Customer deposits and Islamic customer deposits	-	-	7,000	-
Forward foreign exchange contracts	14,647,688	-	(8,039)	-
Currency options	8,370,758	-	25	-
Interest rate derivatives	9,591,248	-	(3,118)	-
Commodity derivatives	704,964	-	(3,896)	-
2017	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
Debt securities / Islamic sukuks	-	1,213,140	-	-
Other investments	-	288,248	6,608	-
Customer deposits and Islamic customer deposits	-	-	7,000	-
Forward foreign exchange contracts	13,731,490	-	(5,376)	-
Currency options	5,790,376	-	-	-
Interest rate derivatives	4,545,125	-	825	-
Commodity derivatives	407,682	-	(76)	-

During the year, there were no transfers between Level 1 and Level 2 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments, as discussed in note 4, during the year.

7. Cash and balances with the UAE Central Bank

	2018 AED'000	2017 AED'000
Cash on hand	226,243	346,101
Certificates of deposit (CDs) with the UAE Central Bank	4,675,000	4,150,000
Other balances with the UAE Central Bank (note 7.1)	1,821,721	2,420,638
	6,722,964	6,916,739

7.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 1,441.5 million (2017: AED 1,274.3 million).

8. Due from banks and financial institutions

8.1 By type

	2018 AED'000	2017 AED'000
Placements	100,000	405,475
Current accounts / term deposits	568,746	364,500
Bills discounted	753,346	1,170,043
	1,422,092	1,940,018
Less: Allowances for impairment (ECL)	(6,730)	-
	1,415,362	1,940,018

As at 31 December 2018, current accounts / term deposits include cash collateral of AED 28.1 million (2017: AED 13.5 million) in respect of negative fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

8.2 By geographical area

	2018 AED'000	2017 AED'000
UAE	572,382	814,277
GCC	71,842	63,643
Europe	407,137	346,692
Americas	81,715	230,691
Others	289,016	484,715
	1,422,092	1,940,018
Less: Allowances for impairment (ECL)	(6,730)	-
	1,415,362	1,940,018

8.3 By currency

	2018 AED'000	2017 AED'000
AED	436,987	411,820
USD	499,660	1,337,632
EUR	381,984	91,876
GBP	5,826	6,354
XAU	15,972	40,721
Others	81,663	51,615
	1,422,092	1,940,018
Less: Allowances for impairment (ECL)	(6,730)	-
	1,415,362	1,940,018

8.4 An analysis of due from banks and financial institutions based on external credit ratings is as follows:

	2018 AED'000	2017 AED'000
AA	63	-
AA-	41,017	36,902
A+	43,729	230,954
A	193,176	256,385
A-	76,022	55,435
BBB+	438,903	760,133
BBB	125,584	230,715
BBB- and below	503,598	369,494
	1,422,092	1,940,018
Less: Allowances for impairment (ECL)	(6,730)	-
	1,415,362	1,940,018

9. Investments and Islamic instruments

	2018 AED'000	2017 AED'000
Investments at fair value through profit or loss (FVTPL) (note 9.1)	44,591	6,608
Investments at fair value through other comprehensive income (FVOCI)		
Debt securities / Islamic sukuks (note 9.2)	1,529,534	1,213,140
Other investments (note 9.3)	574,769	288,248
	2,104,303	1,501,388
Investments measured at amortised cost		
Debt securities / Islamic sukuks (note 9.2)	565,899	408,326
	2,714,793	1,916,322
Less: Allowances for impairment (ECL)	(1,346)	-
	2,713,447	1,916,322

9.1 Investments at FVTPL include various funds whose fair values are based on the net asset values provided by the fund managers.

9.2 Debt securities aggregating **AED 2,095.4 million** (31 December 2017: AED 1,621.5 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices of which are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions. The debt securities portfolio includes floating rate securities amounting to **AED 761.2 million** (31 December 2017: AED 463.9 million).

Debt securities include Islamic sukuks amounting to **AED 528.2 million** (31 December 2017: AED 477.7 million).

9.3 Other investments include shares purchased by the Bank, amounting to **AED 0.16 million** (31 December 2017: AED 0.3 million), during the year.

9.4 The dispersion of the investment portfolio is set out below:

	2018 AED'000	2017 AED'000
Government	905,536	633,496
Banks and financial institutions	968,343	761,369
Others	840,914	521,457
	2,714,793	1,916,322
Less: Allowances for impairment (ECL)	(1,346)	-
	2,713,447	1,916,322

9.5 An analysis of investments based on external credit ratings is as follows:

2018	Debt securities / Islamic sukuks AED'000	Other investments AED'000	Total AED'000
AAA	128,249	91,733	219,982
AA+	94,558	-	94,558
AA	274,714	90,692	365,406
AA-	386,860	-	386,860
A+	339,840	113,568	453,408
A	77,619	206,495	284,114
A-	292,822	-	292,822
BBB+	149,065	-	149,065
BBB-	18,509	-	18,509
Unrated	333,197	116,872	450,069
Less: Allowances for impairment (ECL)	(1,051)	(295)	(1,346)
	2,094,382	619,065	2,713,447

9.5 An analysis of investments based on external credit ratings is as follows (continued)

2017	Debt securities / Islamic sukuku AED'000	Other investments AED'000	Total AED'000
AAA	54,952	-	54,952
AA+	54,589	-	54,589
AA	229,333	-	229,333
AA-	95,776	-	95,776
A+	308,069	112,405	420,474
A	136,676	-	136,676
A-	219,022	94,612	313,634
BBB+	272,137	-	272,137
BBB	20,595	-	20,595
BBB-	18,451	-	18,451
Unrated	211,866	87,839	299,705
	1,621,466	294,856	1,916,322

9.6 The geographic dispersion of the investment portfolio is as follows:

	2018 AED'000	2017 AED'000
UAE	521,603	269,335
GCC	227,212	189,890
Europe	788,692	345,086
Americas	480,709	588,110
Others	696,577	523,901
	2,714,793	1,916,322
Less: Allowances for impairment (ECL)	(1,346)	-
	2,713,447	1,916,322

9.7 The currency wise analysis of the investment portfolio is set out below:

	2018 AED'000	2017 AED'000
AED	467	302
USD	2,656,476	1,787,610
EUR	40,058	121,794
JPY	17,792	6,616
	2,714,793	1,916,322
Less: Allowances for impairment (ECL)	(1,346)	-
	2,713,447	1,916,322

10. Loans and advances and Islamic financing receivables

10.1 Loans and advances and Islamic financing receivables by type:

	2018 AED'000	2017 AED'000
Overdrafts	2,227,625	1,895,865
Term loans	19,178,357	17,928,253
Loans against trust receipts	3,361,286	3,260,076
Bills discounted	2,304,705	1,832,941
Bills drawn under letters of credit	295,260	402,894
	27,367,233	25,320,029
Allowances for impairment (ECL) (note 10.3)	(1,164,822)	(1,254,202)
Net loans and advances and Islamic financing receivables	26,202,411	24,065,827

10.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to **AED 3,058.1 million** (2017: AED 3,086.3 million) provided through a Shari'a – compliant Islamic window, NBF Islamic.

10.3 Allowance for impairment losses on loans and advances and Islamic financing receivables

	2018 AED'000	2017 AED'000
<i>Movement in allowances for impairment losses</i>		
Balance at 1 January	1,254,202	1,204,901
Initial application of IFRS 9	186,816	-
Restated balance at 1 January	1,441,018	1,204,901
Net allowance for impairment losses	384,668	441,668
Written-off during the year	(660,864)	(392,367)
Balance at 31 December	1,164,822	1,254,202

11. Contingent liabilities and commitments

Contingent liabilities represent credit related commitments under letters of credit and guarantees which are designed to meet the requirements of the Group's customers towards third parties. Commitments represent credit facilities and other capital expenditure commitments of the Group which are undrawn at the date of consolidated statement of financial position. All credit related commitments are unconditionally cancellable / revocable at the discretion of the Group except for the amounts mentioned in the table below.

	2018 AED'000	2017 AED'000
Contingent liabilities:		
Letters of credit covering movement of goods	1,606,439	2,276,460
Financial guarantees and other direct credit substitutes	965,942	838,366
Bid bonds, performance bonds and other transaction related contingencies	5,056,190	4,662,456
	7,628,571	7,777,282
Commitments:		
Undrawn irrevocable commitments – credit related	177,458	204,294
Others	75,403	114,801
	252,861	319,095
	7,881,432	8,096,377

The total undrawn commitments which are revocable at the discretion of the Bank amount to **AED 14,080 million** (2017: AED 16,040 million). Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not necessarily represent expected future cash flows.

12. Property and equipment and capital work-in-progress

AED'000	Freehold land	Buildings & leasehold improvements	Motor vehicles, furniture, software & equipment	Total
Cost				
At 1 January 2017	14,066	130,078	171,099	315,243
Additions	-	3,999	26,932	30,931
Disposals	-	-	-	-
At 31 December 2017	14,066	134,077	198,031	346,174
At 1 January 2018	14,066	134,077	198,031	346,174
Additions	99,600	3,128	28,242	130,970
Disposals	-	-	-	-
At 31 December 2018	113,666	137,205	226,273	477,144
Accumulated depreciation				
At 1 January 2017	-	73,325	127,592	200,917
Charge for the year	-	4,306	21,322	25,628
On disposals	-	-	-	-
At 31 December 2017	-	77,631	148,914	226,545
At 1 January 2018	-	77,631	148,914	226,545
Charge for the year	-	4,708	21,000	25,708
On disposals	-	-	-	-
At 31 December 2018	-	82,339	169,914	252,253
Net book value				
At 31 December 2018	113,666	54,866	56,359	224,891
At 31 December 2017	14,066	56,446	49,117	119,629

During the year, the Bank purchased plots of land amounting to AED 99.6 million for infrastructure growth and development.

12.1 Capital work-in-progress

	2018 AED'000	2017 AED'000
	67,157	44,904

12.2 Capital work-in-progress includes costs incurred in respect of the Group's branches, software and directly attributable costs relating to digitalisation initiatives, internet banking upgrade with enhanced security and other software and equipment purchases.

13. Other assets

	2018 AED'000	2017 AED'000
Accrued interest / profit	220,454	150,687
Prepayments and deposits	15,232	13,882
Customer liabilities for acceptances	2,026,596	1,389,728
Fair value of derivatives	142,806	85,510
Others	31,966	13,130
	2,437,054	1,652,937

14. Due to banks and term borrowings

	2018 AED'000	2017 AED'000
By type:		
Bilateral borrowings (note 14.1)	863,155	1,010,075
Sub-ordinated debt (note 14.2)	-	400,000
	863,155	1,410,075
Due to banks (note 14.3)	569,314	627,515
	1,432,469	2,037,590
By geographical area:		
UAE	354,399	390,624
GCC	36,730	330,570
Europe	687,638	803,990
Americas	183,650	473,460
Others	170,052	38,946
	1,432,469	2,037,590

As at 31 December 2018, due to banks include cash collateral of AED 4.7 million (2017: AED 10.3 million), in respect of positive fair value of derivatives, in accordance with the CSA agreements with the interbank counterparties.

14.1 Bilateral borrowings comprise of several borrowings obtained from other banks and financial institutions as follows:

Loan no.	Year obtained	Maturity	Interest rate	2018 AED'000	2017 AED'000
1	2018	Dec-20	Libor + Margin	73,460	-
2	2018	Jun-20	Libor + Margin	91,825	-
3	2018	Dec-19	Libor + Margin	55,095	-
4	2018	Nov-19	Libor + Margin	55,095	-
5	2018	May-20	Libor + Margin	110,190	-
6	2018	Mar-19	Libor + Margin	183,650	-
7	2017	Jul-20	Libor + Margin	183,650	183,650
8	2017	Mar-19	Libor + Margin	55,095	55,095
9	2017	Mar-19	Libor + Margin	55,095	55,095
10	2015	Nov-18	Libor + Margin	-	110,190
11	2016	Jul-18	Libor + Margin	-	91,825
12	2016	May-18	Libor + Margin	-	183,650
13	2017	Feb-18	Libor + Margin	-	36,730
14	2017	Mar-18	Libor + Margin	-	73,460
15	2016	Mar-18	Libor + Margin	-	110,190
16	2016	Feb-18	Libor + Margin	-	110,190
				863,155	1,010,075

Bilateral borrowings include a Murabaha borrowing amounting to AED 183.7 million (2017: AED 183.7 million) undertaken through a Shari'a – compliant Islamic window, NBF Islamic.

- 14.2 On 27 November 2013, the Group arranged a term subordinated loan facility, amounting to AED 400 million, with a finance company. The facility carries an interest rate which is the aggregate of margin and EIBOR, payable quarterly. As per the terms of the facility, the full principal amount of the facility was to be repaid on 27 November 2023, however, it was prepaid on the first redemption date: 27 November 2018.
- 14.3 Due to banks include gold related borrowings amounting to **AED 311.2 million** (2017: AED 535.5 million) utilized to finance gold loans extended to customers on a matched basis.

15. Customer deposits and Islamic customer deposits

	2018 AED'000	2017 AED'000
By type:		
Demand and margin deposits	8,476,605	8,583,973
Saving deposits	299,997	331,592
Fixed term and notice deposits	21,695,869	18,949,432
	30,472,471	27,864,997
By geographical area:		
UAE	26,625,113	25,258,446
GCC	2,653,943	2,029,631
Europe	154,782	131,574
Americas	399,235	131,385
Others	639,398	313,961
	30,472,471	27,864,997

- 15.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha, Wakala and Mudaraba deposits amounting to **AED 4,194.4 million** (2017: AED 3,673.7 million) undertaken through a Shari'a – compliant Islamic window, NBF Islamic.

16. Other liabilities

	2018 AED'000	2017 AED'000
Accrued interest / profit	239,554	142,000
Employee end of service and other long term benefits (note 16.1)	51,094	45,576
Accrued expenses	111,190	90,988
Directors' annual remuneration	4,800	3,000
Liabilities under acceptances	2,026,596	1,389,728
Fair value of derivatives	157,834	90,137
Allowances for impairment (ECL) for off-balance sheet items	44,042	-
Others	121,370	101,722
	2,756,480	1,863,151

- 16.1 Employee end of service and other long term benefits

	2018 AED'000	2017 AED'000
At 1 January	45,576	43,480
Charge for the year	14,939	13,514
Payments during the year	(9,421)	(11,418)
At 31 December	51,094	45,576

16. Other liabilities (continued)

16.2 Provision for employees' end of service benefits

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2018, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method, an

assessment has been made of employees' expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average increment / promotion costs of 1.5%. The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3.5%.

17. Shareholders' equity

17.1 Share capital

	2018 AED'000	2017 AED'000
<i>Authorised, issued and fully paid:</i>		
1,644,454,651 shares of AED 1 each (2017: 1,366,526,563 shares of AED 1 each)	1,644,455	1,366,527

17.2 Proposed dividend

The Board of Directors has proposed a cash dividend of 7.5% (2017: 7.5%) and bonus shares of 12.5% (2017: 7.5%) of share capital for the year ended 31 December 2018.

17.3 Statutory and special reserve

In accordance with the Bank's Articles of Association, the provisions of Article 239 of Federal Law No. 2 of 2015, 10% of the Bank's profit for the year shall be transferred to a statutory reserve which is not distributable. Additionally, in accordance with the Bank's Articles of Association, another 10% of the Bank's profit for the year shall be transferred to a special reserve which is to be used for purposes to be determined by the annual general assembly meeting upon the proposal of the Board of Directors.

17.4 Conversion of tier 1 capital notes to paid-up share capital

Following approval of the Annual General Assembly Meeting held on 18 March 2018 and regulatory authorities, the tier 1 capital notes of AED 500 million were converted on 30 September 2018 into paid-up share capital represented by 175,438,596 shares of AED 1 each issued at AED 2.85 for each note, resulting in the recognition of AED 324,561,404 in reserves.

18. Tier 1 capital notes

In March 2013, the Bank issued Tier 1 capital notes with a principal amount of AED 500 million (the "Capital Notes").

Issuance of these Capital Notes was approved by the Bank's Extra Ordinary General Meeting (EGM) in March 2013. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Notes bear interest at a fixed rate payable semi-annually in arrears. The Capital Notes are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Bank subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest / coupon payment. These Capital Notes have been converted to paid-up share capital on 30 September 2018 (refer note 17.4).

In March 2015, the Bank issued Tier 1 capital notes with a principal amount of AED 500 million (the "Capital Notes"). Issuance of these Capital Notes was approved by the Bank's Extra Ordinary General Meeting (EGM) in March 2013. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Notes bear interest at a fixed rate payable semi-annually in arrears during the initial period of five years, and will be reset every five years based on the then prevailing 5-year AED mid swap rate plus margin. The Capital Notes are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Bank subject to certain conditions. The Bank has also defined conditions for non-viability loss absorption and write-down in line with Basel III guidelines. The Bank may, at its sole discretion, elect not to make an interest / coupon payment. Issuance costs of AED 1.538 million were incurred.

19. Interest income and income from Islamic financing and investment activities

	2018 AED'000	2017 AED'000
Loans and advances and Islamic financing receivables (note 19.1)	1,607,736	1,339,757
Due from banks including the UAE Central Bank CDs (note 19.1)	98,029	71,588
Investments and Islamic instruments (note 19.2)	59,146	41,237
	1,764,911	1,452,582

19.1 Includes income from Islamic financing activities amounting to **AED 196.8 million** (2017: AED 121.5 million) for the year ended 31 December 2018.

19.2 Includes income from Islamic investment activities amounting to **AED 13.0 million** (2017: AED 12.0 million) for the year ended 31 December 2018.

20. Interest expense and distribution to Islamic depositors

	2018 AED'000	2017 AED'000
Due to banks including term borrowings	131,819	77,426
Customer deposits and Islamic customer deposits (note 20.1)	546,441	457,596
	678,260	535,022

20.1 Includes distribution to Islamic depositors amounting to **AED 120.4 million** (2017: AED 97.4 million) for the year ended 31 December 2018.

21. Net fees and commission income

	2018 AED'000	2017 AED'000
Fees and commission income		
Letters of credit	96,375	98,558
Letters of guarantee	54,311	50,232
Lending fees	139,112	140,459
Asset management and investment services	106	139
Commission on transfers	31,547	25,937
Others	13,428	21,029
Total fees and commission income	334,879	336,354
Fees and commission expense		
Brokerage expense	2,469	4,426
Card related charges	19,795	16,575
Other charges	3,952	3,893
Total fees and commission expense	26,216	24,894
Net fees and commission income	308,663	311,460

22. Other operating income

	2018 AED'000	2017 AED'000
Rental income	123	169
Rebates	9,419	9,159
Other miscellaneous income	36,738	20,060
	46,280	29,388

23. Employee benefits expense

Employee benefits expense includes employee bonus of **AED 61.3 million** (2017: AED 38.0 million). The number of employees at 31 December 2018 was **762** including **609** employed by the Bank of which **250** were UAE nationals [2017: 747 including 602 employed by the Bank of which 255 were UAE nationals].

24. Social contributions

The social contributions made during the year to various beneficiaries amount to **AED 1.8 million** (2017: AED 1.3 million).

25. Net impairment losses

	2018 AED'000	2017 AED'000
Loans and advances and Islamic financing receivables, acceptances and off-balance sheet items	434,452	441,668
Due from banks and financial institutions	2,173	-
Investments and Islamic instruments	161	-
	436,786	441,668

26. Earnings per share

The calculation of earnings per share is based on net profit of **AED 544.4 million** (2017: AED 401.5 million), after deduction of **AED 70.9 million** (2017: AED 70.5 million) of coupon payment on Tier 1 capital notes, divided by the weighted average number of shares of **1,644.5 million** (2017: 1,644.5 million shares after adjusting for bonus shares and conversion of tier 1 capital notes to paid-up share capital) outstanding during the year.

27. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Group, related parties, as defined in the International Accounting Standard No. 24, include major shareholders of the Group, directors and officers of the Group and companies of which they are principal owners and key management personnel. Banking transactions are entered into with related parties on agreed terms and conditions approved by the Board of Directors. The significant transactions and balances included in the consolidated financial statements, which predominantly relate to directors and shareholders of the Group, are as follows:

	2018 AED'000	2017 AED'000
Statement of financial position items		
Loans and advances and Islamic financing receivables	2,101,575	1,903,745
Customer deposits and Islamic customer deposits	5,737,620	5,694,124
Investments and Islamic instruments	109,898	63,800
Acceptances	12,719	11,732
Tier 1 capital notes (note 17.4)	190,000	690,000
Statement of changes in equity items		
Tier 1 capital notes coupon paid	48,463	47,995
Contingent liabilities		
Letters of credit	64,510	88,636
Financial guarantees and other direct credit substitutes	87,609	89,490
Transaction related contingencies	264,508	184,154

	2018 AED'000	2017 AED'000
Statement of income items		
Interest income and income from Islamic financing and investment activities	91,388	69,007
Interest expense and distribution to Islamic depositors	160,226	125,681
Other income	10,962	8,011
Key management compensation		
Salaries and other short-term benefits	20,521	20,902
Employee end of service benefits	666	561
Directors' annual remuneration	4,800	3,000

No stage 3 provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables given to related parties (2017: Nil).

The loans and advances and Islamic financing receivables given to related parties amounting to **AED 2,101.6 million** (2017: AED 1,903.7 million) have been secured against collateral amounting to **AED 1,578.4 million** (2017: AED 1,452.4 million).

During the year, the Bank purchased plots of land from a related party amounting to AED 99.6 million.

28. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances from the date of acquisition:

	2018 AED'000	2017 AED'000
Cash on hand	226,243	346,101
Balances with the UAE Central Bank (note 28.1)	5,055,182	5,296,327
Due from banks with less than three months maturity	568,747	639,976
	5,850,172	6,282,404
Due to banks with less than three months maturity	(319,793)	(432,565)
	5,530,379	5,849,839

28.1 Balances with the UAE Central Bank include certificates of deposit. In accordance with UAE Central Bank regulations on issuance of Central Bank certificates of deposit, the Bank can enter into repurchase agreements in order to obtain short term liquidity.

29. Segmental reporting

The Group uses business segments for presenting its segment information in line with the Group's management and internal reporting structure. The Group operates predominantly in the UAE.

Business segments pay and receive interest, to and from Treasury on an arm's length basis to reflect allocation of capital and funding costs.

Business segments

The Group conducts its activity through the following clearly defined business segments:

Corporate and institutional banking

Corporate and Institutional segments

The segment offers a range of products and services including credit and trade finance products, and services to large and medium sized corporate customers through separate units and to financial institutions, and accepts deposits.

29. Segmental reporting (continued)

Business banking segment

The segment offers a range of products and services including credit and trade finance products, and services to small and medium sized customers through separate units, and accepts deposits. The segment also offers transactional services to small and medium sized businesses.

Retail banking

The segment offers a range of products and services to individuals and high net worth individuals including personal and mortgage loans, credit cards, other transactions and balances, and accepts their deposits.

Treasury, asset and liability management (ALM) and others

The segment undertakes the Group's asset and liability management centrally and is responsible for optimum

utilization of resources in productive assets and management of exchange and interest positions within the limits and guidelines set by management and approved by the Board.

Treasury also offers various foreign exchange and derivative products to customers and is entrusted with the responsibility of managing the Group's investment portfolio together with the Investment Management Unit under the guidance of the Investment Committee and Asset and Liability Committee. The Group's capital and investment in subsidiaries is recognised under this segment.

The Group has central shared services which include Operations, Risk Management, Human Resources, Finance, Information Technology, Product Development, Legal, Credit and Internal Audit. The shared services cost is allocated to business segments based on transaction and relevant drivers.

The segment analysis based on business segments is set out below:

2018 – AED'000	Corporate and institutional segment	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	899,381	287,575	137,040	249,840	1,573,836
Segment operating cost	(258,357)	(132,327)	(99,059)	(31,993)	(521,736)
Segment operating profit	641,024	155,248	37,981	217,847	1,052,100
Net impairment losses	(351,440)	(48,929)	(36,155)	(262)	(436,786)
Profit	289,584	106,319	1,826	217,585	615,314
Segment assets	22,965,960	3,308,935	2,911,574	10,596,817	39,783,286
Segment liabilities	27,391,997	3,296,130	2,725,155	1,248,138	34,661,420
Capital expenditure	-	-	-	153,223	153,223

2017 – AED'000	Corporate and institutional segment	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	769,631	264,336	112,558	232,016	1,378,541
Segment operating cost	(229,758)	(124,641)	(83,051)	(27,480)	(464,930)
Segment operating profit	539,873	139,695	29,507	204,536	913,611
Net impairment losses	(296,877)	(125,727)	(19,270)	206	(441,668)
Profit	242,996	13,968	10,237	204,742	471,943
Segment assets	21,219,850	3,229,924	2,394,208	9,812,394	36,656,376
Segment liabilities	24,298,793	3,116,875	2,746,039	1,604,031	31,765,738
Capital expenditure	-	-	-	38,359	38,359

30. Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these consolidated financial statements.