



# ANNUAL REPORT

20

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

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## 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 7992

#### DIBBA BRANCH

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

#### 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

Main Entrance, Fujairah Court House  
Sheikh Khalifa Bin Zayed Road  
Tel: 600 565551

### DUBAI

#### BUR DUBAI BRANCH

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

#### JEBEL ALI BRANCH

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

#### AL RAS BRANCH

Al Ras, Greenline Car Parking Building  
Gold Souq in front of Malabar Gold  
Building 1, Al Dhagaya Road  
Tel: 600 565551

#### DUBAI SOUTH (EBSU)

Office No. 206-207, Ground Floor  
Building B2 Business Park Dubai

World Central, Dubai, PO Box 17676  
Tel: 600 565551  
Fax: +971 6 525 5887

### ABU DHABI

#### ABU DHABI BRANCH

Showroom 2, Al Sawari, Tower B  
Corniche, PO Box 786, Abu Dhabi  
Tel: 600 565551  
Fax: +971 2 672 8362 / 676 8503

#### MUSSAFAH BRANCH

Al Bustan Guardian Building  
Ground Floor, Musaffah, Sector 1, M1  
PO Box 786, Abu Dhabi  
Tel: 600 565551  
Fax: +971 2 555 1215

#### AL AIN BRANCH

Royal Building, Ground Floor Zayed  
Bin Sultan St., PO Box 88108, Al Ain  
Tel: 600 565551  
Fax: +971 3 764 8156

### SHARJAH

#### SHARJAH BRANCH

Faya Business Building Ground Floor  
(opposite Al Majaz Park and Khalid Lake)  
Al Majaz 2, PO Box 1416, Sharjah  
Tel: 600 565551  
Fax: +971 6 525 5887

### Corporate/Representative Offices

#### NBF DIAMOND FINANCING OFFICE

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

#### 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

#### ANTWERP REPRESENTATIVE OFFICE

Schupstraat 15, 2018 Antwerp, Belgium  
Tel: +32 3 202 8680  
Fax: +971 9 202 9468

### NBF Subsidiaries

#### FUJAIRAH

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

#### CAYMAN ISLANDS

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

# TOWARDS THE NEXT 50

**“ We want to develop our plans, our projects, our way of thinking. Fifty years ago, UAE founders designed our lives today... Today, we want to design the next fifty years for the new generations.”**

**HH Sheikh Mohammed bin Rashid Al Maktoum**

Vice President and Prime Minister of the UAE, and Ruler of Dubai

**“ With the willpower and unity of our people, we will work tirelessly to achieve our goal in making the UAE among the best countries in the world by the UAE centennial in 2071.”**

**HH Sheikh Mohamed bin Zayed Al Nahyan**

Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces

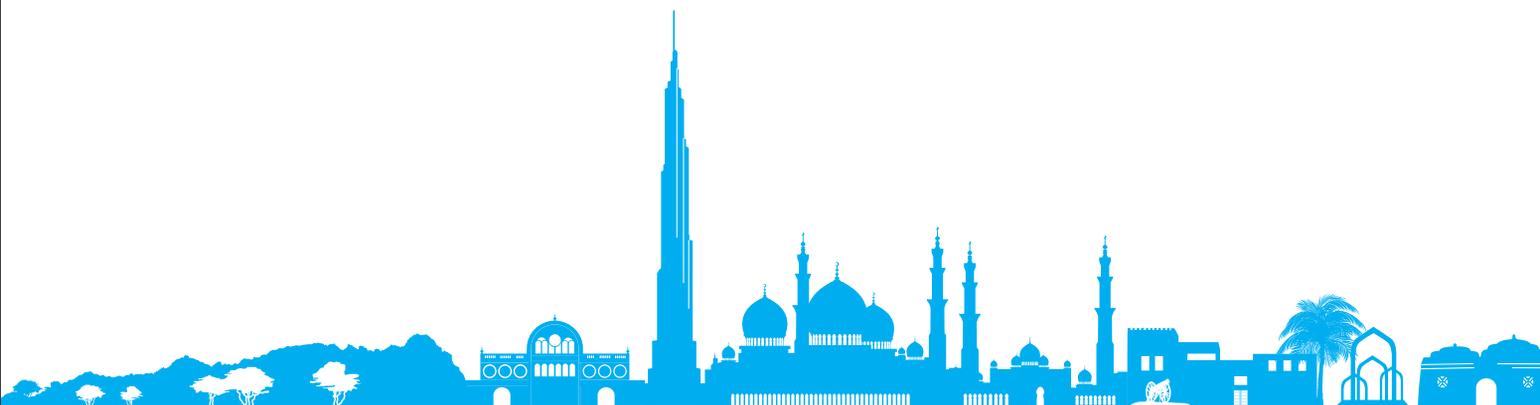
On 2 December 2021, the UAE will celebrate its 50th anniversary. In doing so, it will bring to a close five decades of exceptional growth and unprecedented achievement. In preparation, the UAE dedicated 2020 to the development of a comprehensive strategy that will guide the nation over the next half century.

In the 50 years since its union, the country has dynamically grown to become a global trade hub, one of the richest nations in the world, a centre of excellence, and one of the most innovative countries on Earth. Thanks to a strategy of economic diversification, 70 per cent of the country's GDP now comes from non-oil sources. Furthermore, HH Sheikh Mohamed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, wants the UAE to go even further: to prepare itself for a future without oil.

That has meant promoting innovation, investing in research and development, supporting creativity, and embracing groundbreaking technologies, all with the goal of improving the wellbeing of society, building a first-rate educational system, and forging a knowledge economy. In short, the UAE is envisioning a future as a digital nation. One based on technology, innovation and people.

The UAE is clearly heading towards a smart future and so is NBF.

For NBF, this journey has meant spearheading digital innovation and embracing the growing role of fintech in its provision of banking services and products to its digitally enabled customers. All with the goal of providing easy, seamless and user-friendly experiences, and equipping our customers with the most innovative and efficient tools to navigate their business journeys.



# 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.

بنك الفجيرة الوطني  
National Bank of Fujairah



## 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 the highest standard of professionalism, while contributing to the growth and advancement of communities in which we work.

## OUR VALUES

 <b>P</b>	<b>Passion and Commitment</b>
Be ready to go the extra mile for the bank and for each other	
 <b>R</b>	<b>Respect</b>
Have mutual trust and understanding, appreciate and seek the views of others	
 <b>I</b>	<b>Integrity</b>
Be honest and transparent	
 <b>D</b>	<b>Dedication to team work</b>
Work towards common goals. Build effective teams across organisational boundaries	
 <b>E</b>	<b>Excellence in service</b>
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.



### KEY PERFORMANCE METRICS



## NBF INTRODUCTION

For the past 38 years, NBF has been proudly providing outstanding service to its customers. In doing so, we have not only built an enviable reputation for excellence in corporate and commercial banking, trade finance and treasury, but have generated great value for the wider community.

Recognised for our award-winning services, unrivalled understanding of local markets, and an unwavering commitment to our customers, we have been the UAE's bank of choice for the past four decades. That has meant offering a full suite of banking services, including a comprehensive range of personal banking options and Shari'a-compliant services, and playing an active role in the development of a progressive and inclusive culture.

As a bank born and bred in the UAE, NBF consistently celebrates its heritage by being a proactive member of the local community, and has been committed to the economic development of Fujairah and the wider UAE since 1982. This has been most evident through our support of local industries, ranging from oil and shipping to services, manufacturing, construction, education and healthcare.

With an exemplary track record, strong cultural heritage, deep market insight and an unwavering dedication to service and innovation, we seek to develop lasting relationships with our customers as we help them leverage growth opportunities in the ever-changing marketplace. We are also committed to the creation of a stimulating work environment and to the personal and professional development of all our staff.

## OUR NETWORK

Headquartered in Fujairah, the bank has a total of 15 branches, one of which is an electronic banking service unit. It also has 38 ATMs spread across the country. Although the highest number of branches are within Fujairah, the bank has branches in Abu Dhabi, Dubai, Sharjah and Al Ain.

Two subsidiaries also fall under the NBF banner. They are NBF Financial Services FZC, which was established in 2004 and provides the bank with key support services, and NBF Markets, which is registered in the Cayman Islands and provides support services related to foreign exchange and derivative transactions.



## YEAR-ON-YEAR ACCOLADES

## 2020

**Dubai Chamber CSR label** – Dubai Chamber of Commerce and Industry

**Best SME Bank** – MEA Finance Awards

## 2019

**Best Corporate Bank** – Banker Middle East Industry Awards

**Best SME Bank** – Banker Middle East Industry Awards

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

**Best Treasury Management** – Banker Middle East Product Awards

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

**Best SME Loan** – Banker Middle East Product Awards

**Best SME Trade Finance** – Banker Middle East Product Awards

**Best Ladies Proposition** – Banker Middle East Product Awards

**Best Premium Banking Services** – Banker Middle East Product Awards

**Best Mobile Banking Service UAE** – Retail – Banker Middle East Product Awards

**Best New Islamic Window UAE** – Islamic Business & Finance Awards

**International Employee Engagement Award** – International Business Excellence Awards 2019

**Overall Experience Award** – The Gulf Employee Experience Awards

**Employee Engagement and Happiness Award** – The Gulf Employee Experience Awards

**Employee Insight and HR Metrics Award** – The Gulf Employee Experience Awards

**Best Emiratisation Initiative of the Year Award** – Tawdheef

**Dubai Chamber CSR label** – Dubai Chamber of Commerce and Industry

## 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** – Gulf Employee Experience Awards 2018

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

**Best Employee Experience** – Gulf Employee Experience Awards 2018

**HR Team of the Year** – 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

**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 in H1 2017

**HR Team of the Year** – Gulf Employee Experience Awards

**Korn Ferry Employee Engagement Awards** – Winner Middle East 2017

**HR Team of the Year** – 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

**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

## STATEMENT FROM THE CHAIRMAN

2020 was a year unlike any other, bringing with it the world's worst recession since the Great Depression. Covid-19's impact on the world economy was extraordinary, causing business activity to contract, oil prices to slump, and governments to support national economies through increased borrowing. The UAE has not been immune to the pandemic and the government has taken a number of measures for the safety and sustainability of businesses that will enable progressive economic recovery in 2021 and beyond.

Against this backdrop, NBF demonstrated its resilience and ability to navigate through volatility and uncertainty. We understood that maintaining our business operations was essential during this time of crisis and adjusted our strategies accordingly. The bank reinforced its strong financial stability, remained focused on the future, and adapted its business model to reflect the emerging needs of its customers.

Whilst the ensuing challenges resulted in the year ending with a net loss of AED 475.3 million, a strong capital position and ample liquidity, coupled with effective cost management and prudent provisioning, place the bank well for a rapid recovery.

Operating income stood at AED 1.4 billion, down 18.9 per cent on 2019, reflecting the exceptionally challenging operating conditions. The primary causes were margin compressions, recessionary trends across global economies, and depressed economic activity. This was mitigated by the management's efforts to protect the core business, adapting its investment strategy and achieving operating efficiencies from its continued investment in innovation.

Given the challenges forced on our customers by the pandemic, we moved at pace to adapt our strategies. This led to a renewed focus on reducing concentration and growing quality diversified business in the government sector, trade finance, financial institutions, investments and home finance. It also led to a firm focus on the bank's customers, staff, and the wider public. In doing so, NBF offered assistance, built stronger and lasting relationships, and further solidified its partnerships.

The bank also introduced focused measures to ease the pressure on clients. It introduced virtual connectivity and work-from-home practices and continued the bank's tradition of knowledge sharing via a year-long calendar of online events and thought leadership activities. In addition, business services aimed at the bank's Corporate, SME and Retail segments were delivered with great levels of engagement. We also connected with the younger generation through NBF Ajyal, a set of digital banking services for Emiratis.

Significantly, Covid-19 also heightened our collective urgency for a more sustainable world, hammered home the importance of brand purpose, and drove technological innovation with initiatives such as NBF CONNECT (a platform empowering SMEs), Klip digital wallet, and e-dirham, to name but a few.

The bank's CSR efforts took a unique turn with a variety of virtual events, including the very first NBF Fujairah Virtual Run series and a Ramadan Drive in partnership with Angel Appeal. These initiatives and many others were acknowledged with industry accolades, including the 'Best SME Bank' Award from MEA Finance, and the awarding of the CSR Label once again this year.

The bank's partnership with its shareholders is key to NBF's business continuity and success. Given the difficult trading environment experienced during 2020, the bank had to take the difficult decision to not distribute dividends to shareholders. This is a result of the substantial increase in impairment provisions and net loss for the year. The bank is especially grateful at this time for the unwavering support and long term focus of its shareholders and the partnerships that were strengthened during the pandemic, and looks forward to a return to the distribution of dividends.

The Board and Management are confident about the bank's success and development in the coming years. Despite the challenges and difficulties faced during 2020, NBF moves forward into 2021 in a strong position. It will undoubtedly enjoy a period of exciting growth similar to that witnessed after the global financial crisis, and will continue to play a vital role in supporting the UAE's economic recovery. We remain confident in our ability to navigate the evolving environment and to deliver sustainable shareholder returns.

I would like to thank NBF's Board of Directors, members of the Management Committee, and our employees for their grit and determination throughout what was an extremely challenging year. Without their commitment and resilience – and without the continued support and trust of our customers and shareholders – 2020 would have been much harder. We look forward to, and hope for, a fruitful year ahead.



**Saleh Bin Mohamed Bin Hamad Al Sharqi**

Chairman

28 January 2021

# Directors' Report

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

## STATEMENT FROM THE DEPUTY CHAIRPERSON

Despite the adversity that we all faced during what was an extraordinary and unprecedented year, NBF maintained a resolute focus on the execution of its strategic priorities.

The bank delivered exceptional customer service, spearheaded digital innovation, maintained financial stability, continued to meet compliance and regulatory standards, and supported its communities when they needed us the most. I am particularly proud of NBF's efforts to support our most impacted customers through the introduction of appropriate relief measures whilst simultaneously taking care of the well-being and security of our staff.

While our 2020 results are disappointing in terms of profitability, they highlight the group's financial strength and its ability to withstand a truly exceptional shock to the economic system. This was underpinned by the bank's strong capital base and the unwavering support of our principal shareholders. In addition, our inexorable focus on our customers' requirements and the building of an engaged and enabled workforce augurs well for the effective delivery of our strategy for 2021 and beyond. NBF believes in value creation for all of its stakeholders and is committed to achieving this through the fast-tracking of our digital plans, aligning our business focus to the current market, and enhancing reputation with the highest ethical standards.

We are further re-organising to strengthen our credit risk management processes and core business focus, more efficiently leveraging our competitive strengths and continuing to look to drive efficiencies. We are assured that by upholding diligent risk management standards, financial prudence and sustainability, the Group will continue to make commendable progress over the coming years and benefit from the gradual rebound in business activity and market sentiment.

On the results front, customer deposits and Islamic customer deposits stood at AED 29.8 billion compared with AED 31.9 billion at 2019 year-end. Current and Saving Accounts (CASA) deposits increased by AED 1.6 billion from 2019 year-end, a 16.9 per cent increase to AED 11.3 billion as of 31 December 2020. CASA deposits improved to 38 per cent of total customer deposits compared with 30.3 per cent as of 31 December 2019. Total assets reached AED 39.9 billion (AED 42.8 billion at 2019 year-end) and shareholders' equity stood at AED 5.7 billion compared with AED 6.4 billion at 2019 year-end.

We are confident that our prudent business model shall continue to deliver a solid performance through the careful management of the opportunities and challenges that will present themselves in 2021. I would like to take this opportunity to express my gratitude to our Chairman, His Highness Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi, the Board of Directors and the Senior Management Team, as well as our entire staff for all their contributions and hard work as we conclude what was an extremely turbulent year.



**Dr. Raja Easa Al Gurg**  
Deputy Chairperson  
28 January 2021

## ECONOMIC OVERVIEW

The economic consequences of the Covid-19 pandemic were severe for all countries, businesses and individuals. As lockdowns came into effect across the world, operating costs were cut, marketing budgets were slashed, and many businesses struggled to stay afloat as consumers made purchase decisions based on necessities. The resultant economic downturn plunged the global economy into the worst recession since the Great Depression.

According to the International Monetary Fund, the Eurozone economy was projected to contract by 8.3 per cent in 2020, the UK by 9.8 per cent, and the US by 4.3 per cent. The world economy as a whole was predicted to contract by 4.9 per cent, with a long and difficult recovery expected over the coming years. As a trade, tourism and transportation hub, the UAE was hit by travel restrictions, disruptions to supply chains, limited export opportunities, increased unemployment, and declining real estate prices.



As oil exporter, the UAE also felt the fallout from reduced global demand for oil as economic activities contracted worldwide. The country's oil production fell by 4.1 per cent year-on-year in the second quarter of 2020 and by 17.7 per cent in the third quarter. The drops in production were in line with an agreement by OPEC. The slump in oil demand led the UAE government to cut federal spending for 2021 by 5.3 per cent in November.

Prompt action from the government in terms of economic stimulus packages and the Targeted Economic Support Scheme, which was extended to the banking sector by the Central Bank of the UAE, helped provide stability. In total, the Central Bank and the UAE government provided stimulus and relief packages worth AED 282.5 billion in response to the Covid-19 pandemic.

As a result, economic activity in the UAE recovered partially in the second half of the year, although the bounce back remained fragile. The Central Bank predicted real total GDP growth for 2020 would be around -6 per cent, with real non-hydrocarbon GDP projected to decline by around 5 per cent. Positive sentiment is expected to return in 2021 and the Central Bank's Targeted Economic Support Scheme has been extended until 30 June.

## NBF STRATEGY 2020

The bank entered 2020 cautiously optimistic. It was well positioned to capitalise on key opportunities as it continued to put its customers first, focused on delivering excellent customer experience, spearheaded digital innovation, and continued to meet compliance and regulatory standards.

However, as the year progressed it became increasingly apparent that changing and challenging market conditions necessitated certain actions. The fallout from Covid-19 called for a focus on consolidation, a lowering of the bank's risk profile, and the solidifying of the bank's financial stability. As a result, the bank took a number of measures to manage its cost-to-income ratio in line with business potential. Increased investment in digitalisation, right sizing and rationalisation measures also resulted in reduced operating expenses.

Given the extreme volatility of 2020, a focus on traditional business with prudent credit underwriting standards was a priority. The bank diversified revenue streams by modifying business segments in response to evolving market opportunities, explored new markets for the distribution of risk, and supported customer trade flows by aligning risk appetite with key trade corridors.

The bank continued its investment in strategic priorities and future development and made good progress in delivering a number of initiatives and projects.

## INNOVATION & DIGITAL TRANSFORMATION

Digital adoption and innovation rapidly accelerated during the pandemic, leading to exponential growth in the use of digital products. As such, embracing technology became essential for business survival. This was as true for the banking industry as it was for any other.

In 2020, NBF invested in new products and services as it looked to increase efficiency, help businesses overcome Covid-19 related constraints, and broaden its customer base. The bank's tech overhaul, which is part of a digital strategy dating back to 2015, has already resulted in lower transaction costs, improved operational efficiency through automation and optimisation, and a substantial increase in remote banking. To date, more than 70 per cent of the bank's customers have transitioned from traditional to online banking, and in some processing areas more than 90 per cent of transactions are now fully automated.

NBF's success in further leveraging technology during 2020 enhanced the group's responsiveness and adaptability and complemented its growth strategy, especially during a pandemic when access to digital and online channels was key to delivering value.

**Key projects** – With much of the world shifting online due to Covid-19, the bank rolled out a number of new products in 2020. These included NBF CONNECT, a platform designed to empower, connect and help SMEs with their business challenges; eDirham Instant, a digital payment method that allows customers to securely pay for governmental fees and services; NBF klip, a robust, secure and interoperable digital cash platform that's designed to transition the UAE to a truly cashless society; and NBFX, a state-of-the-art Digital Electronic Trading Platform, which will be launched in early 2021. The platform will act as an efficient, competitive, and user-friendly venue for executing Foreign Exchange and Commodity transactions as a compliment to NBF's clients.

NBF will also continue to be at the forefront of the country's initiatives to become a cashless society as the UAE looks

towards the next 50 years. This is in line with the UAE's theme of 'Towards the next 50' and will enable the bank to make the most of the opportunities presented by Expo 2020.

## ENHANCING CYBER SECURITY

While digital banking provides faster processing of financial transactions and more convenience, this new normal has heightened vulnerabilities too. NBF's cybersecurity strategy sits at the centre of the bank's digitalisation model and it has worked tirelessly towards strengthening its layered security controls, beefing up its cyber resilient capabilities and educating its workforce and customers about cyberattacks on a regular and ongoing basis.

To protect the identity of the bank's customers, NBF has deployed the most advanced authentication methods, such as biometrics and facial recognition, and will continue to evolve its techniques to maximise security. The bank's approach to data protection is steered by a cross functional data governance forum, which is designed to ensure NBF manages data security, privacy, quality and overall performance in an effective way. Highlighting the bank's commitment to the fight against fraud, NBF joined the UAE Banks Federation to support its efforts to minimise the impact of fraud by promoting anti-fraud awareness and education.

NBF continues to maintain and improve the controls to protect its customer information, these efforts are regularly acknowledged externally, including this year's annual review of NESAs, where the bank maintained the compliance ratio of 99% together with securing the "ISO 27001:2013" security certification.

## CUSTOMER EXPERIENCE & PARTNERSHIP

NBF continued to provide customers with an exceptionally high quality of financial services and further developed a strong sense of partnership through service and innovation. That meant delivering an excellent customer experience via a customer centric business model that was backed by technological and digital enhancement. It also required a sustained effort to seek and reflect customer feedback in shaping the bank's business model and offerings.

Throughout the year the bank launched multiple campaigns to support clients' needs, including the Shukran campaign, which offered a host of banking products and financing solutions exclusively designed for front-line workers. It also launched a year-long 'Stay Connected' campaign to help guide and support clients throughout the pandemic with measures to support cash flow. In addition, NBF organised around 50 webinars focused on key issues, challenges and opportunities for clients, staff and the wider public.

## EMPLOYEE WELLBEING

As the year unfolded NBF did its utmost to ensure the health and wellbeing of its staff. The bank followed the directives issued by the UAE Ministry of Health and Prevention and took every measure possible to ensure the safety of all. Communication was of paramount importance throughout the entire crisis and the bank continued to build on its strong history of employee engagement.

NBF remained committed to the wellbeing, engagement and upskilling of its people and, in particular, its Emirati staff. The bank continued to further strengthen its team, developing the next generation of Emirati professionals, fast tracking their career development, and building a high performing organisation with a continued focus on Emiratisation.

## NBF AND THE COMMUNITY

Throughout the pandemic, the bank endeavoured to show awareness and empathy as a brand, providing practical support at every juncture and reassurance where needed. First and foremost this meant providing a safe environment for NBF's employees and customers. The bank introduced social distancing and meeting restrictions, took numerous precautions to keep its branches clean (including deep cleaning and the provision of additional sanitisers), and made banking easier and safer. It also launched a comprehensive communication and awareness campaign.

The bank further leveraged its partnership with Fujairah Welfare Association and conducted various well-being programs for staff and customers in order to combat the spread of Covid-19. It also continued to raise awareness of financial inclusion and cyber-based fraud and organised an online donation campaign during Ramadan. NBF staff contribution was matched by the bank and donated to the Mission to Seafarers, a charitable initiative that cares for seafarers off the coast of the UAE. Other community-based events included the fourth edition of the NBF Fujairah Run, which this year took the form of a series of three virtual runs completed between September and November.

In line with NBF's commitment to environmental conservation, the bank continued to contribute towards Emirates Nature WWF and built further sustainable practices into its business. It introduced solar water heaters in various branches, installed sensor activated LED lights, used solar power for external signage, and reduced the use of artificial lighting. NBF will continue to build sustainable practices into its business in 2021, extend its support towards communities, and deliver value to its stakeholders.

## BUSINESS PERFORMANCE

NBF's results clearly underline the exceptional circumstances faced by all businesses in 2020. While these circumstances resulted in a drop in operating income and significant impairment losses, the bank's underlying core business remained robust. NBF's liquidity is in good shape, capital adequacy is at a recent high, and the bank has shown high levels of resilience. This has enabled NBF to face the challenges posed by Covid-19 with confidence and provided the bank with a good platform for recovery.

NBF has a vigorous capital position and a strong liquidity profile coupled with effective cost management, which the bank was able to reduce by almost 13 per cent in 2020. In addition, NBF was able to increase income from investments and Islamic instruments and, despite market disruption, rolled out a number of new digital solutions to its customers. The bank also saw good momentum in its home finance business in the second half to 2020, which we will take into 2021.

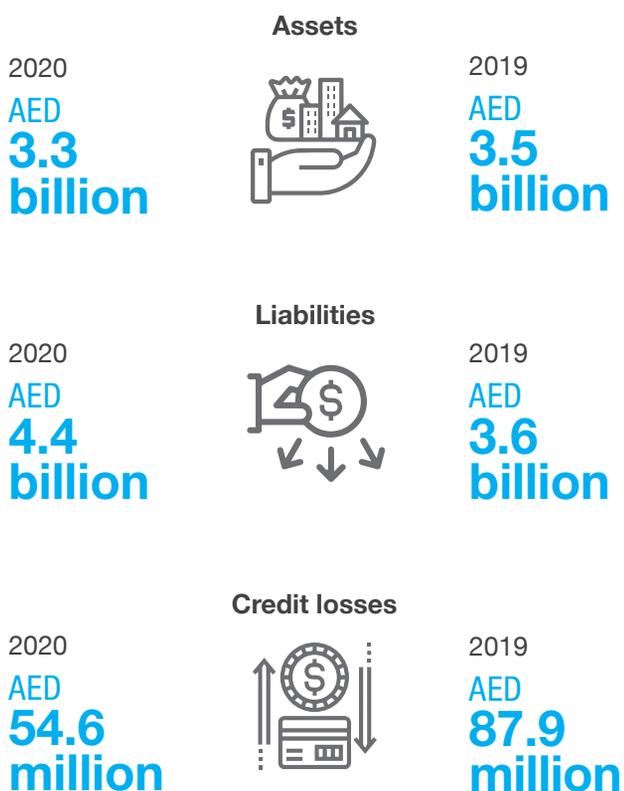
## SEGMENT PERFORMANCE

### CORPORATE AND INSTITUTIONAL BANKING

NBF is highly regarded for its customer-focused corporate and institutional banking expertise. In 2020, NBF's corporate and institutional banking segments represented 50.4 per cent of overall group operating income, compared with 54.3 per cent in 2019. Operating income stood at AED 697.9 million compared with AED 927.8 million the previous year. Additionally, assets reached AED 21.3 billion compared with AED 23.9 billion in 2019, and liabilities stood at AED 24.4 billion compared with AED 28.2 billion in the previous 12 months. In addition, operating profit stood at AED 452.9 million, with a net loss of AED 794.4 million. Segment profitability was impacted by IFRS 9 model changes, the expected credit losses of a few exceptional group exposures, and the pandemic, which resulted in subdued business and instalment deferrals to affected clients.

### BUSINESS BANKING

NBF's business banking operations performed strongly in 2020, contributing 21.8 per cent to the group's overall operating income compared with 18.4 per cent in 2019. Net profit stood at AED 131.5 million, representing growth of 46.9 per cent on the previous year. This bounce back was in line with the bank's strategy for the SME sector in the UAE. The segment's assets totalled AED 3.3 billion in 2020 compared with AED 3.5 billion in 2019, reflecting repayment from customers due to subdued business activities. Liabilities rose to AED 4.4 billion from AED 3.6 billion in 2019 as a result of an enhanced focus on cash management and product cross-selling. Credit losses reduced by 37.9 per cent to AED 54.6 million in 2020, down from AED 87.9 million in 2019.



### RETAIL BANKING

As part of its strategy to grow the bank's customer base, NBF continues to expand its Retail Banking franchise with a focus on priority and preferred customers and Shari'a-compliant retail banking products and services. Retail banking assets and liabilities grew to AED 3.1 billion (2019: AED 3 billion) and AED 3.5 billion (2019: AED 2.9 billion) respectively. Annual operating income was AED 130.8 million, down 5.2 per cent compared with AED 138 million in 2019. This was due to a sharp decline in interest rates. Because of an enhanced focus on digitalisation, coupled with the effects of the pandemic, three branches in Fujairah and Dubai and an Electronic Service Banking Unit in Abu Dhabi were closed during the year. These measures helped reduce segment costs from AED 110.5 million to AED 95.2 million. Credit losses increased to AED 64.9 million from AED 23 million in 2019, impacted by the Covid-19 pandemic and instalment deferrals, resulting in a net loss of AED 29.2 million for the segment.

### TREASURY, INVESTMENTS, ASSET AND LIABILITY MANAGEMENT (ALM) AND OTHERS

Treasury and ALM was the best operating segment during 2020, with a net profit of AED 216.9 million. NBF's investment portfolio increased by 54 per cent to AED 5.2 billion as liquidity was directed towards high quality investments to mitigate the impact of subdued loan growth. Investment income for the year increased to AED 20 million from AED 10.8 million in 2019. In addition, the fair value gain on the investments at fair value through Other Comprehensive Income investment portfolio significantly increased to AED 92.6 million from AED 31.4 million the previous year. Foreign exchange and derivative income was AED 124.9 million, down 17.3 per cent compared with AED 151.1 million in 2019. This was on account of lower volumes in the market.

### NBF ISLAMIC

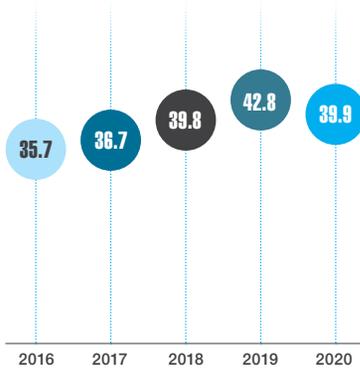
The Islamic economy was not immune to the impacts of the Covid-19 pandemic in 2020. However, the UAE was able to retain its position among the top three economies overall and the Islamic Finance sector in particular, according to the Global Islamic Economy Indicator report. The UAE also launched an initiative to create a unified global and regulatory Islamic Finance framework, which Islamic Financial Institutions are acclimatising to in a phased manner.

With this economic and regulatory backdrop, NBF Islamic remained resilient in 2020, constituting 11.5 per cent (2019: 12 per cent) of overall group assets and 10.1 per cent (2019: 14.4 per cent) of group deposits. NBF Islamic witnessed a decline in its asset base of 10.5 per cent compared with the previous year, falling to AED 4.6 billion in 2020. This was a reflection of the economic slowdown and the bank's prudent policies. Total Islamic financing receivables and Islamic customer deposits reached AED 3 billion (2019: AED 3.4 billion) and AED 3 billion (2019: AED 4.6 billion) respectively. NBF Islamic accounted for 6.7 per cent (2019: 7.4 per cent) and 9.6 per cent (2019: 10.2 per cent) of overall operating income and operating profit respectively. During the course of the year operating income reduced by 26 per cent to AED 93.3 million.

### FIVE-YEAR PERFORMANCE SCORECARD

NBF has delivered consistent growth from its core business throughout to recent challenging period.

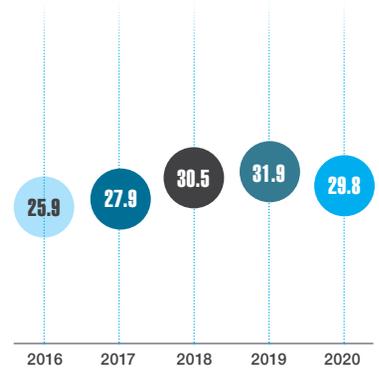
Assets (AED Billion)



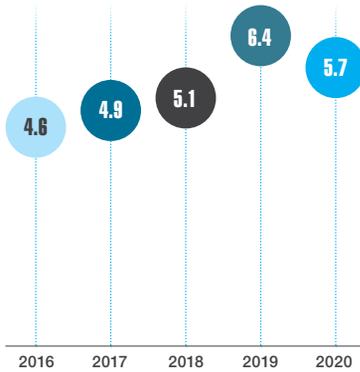
Loans and Advances and Islamic Financing Receivables (AED Billion)



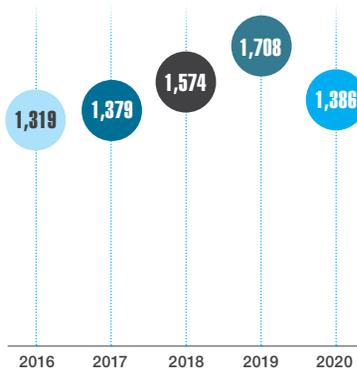
Customer Deposits and Islamic Customer Deposits (AED Billion)



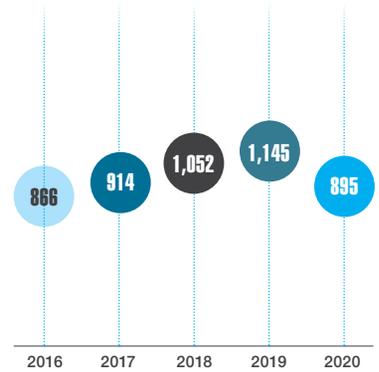
Shareholders' Equity (AED Billion)



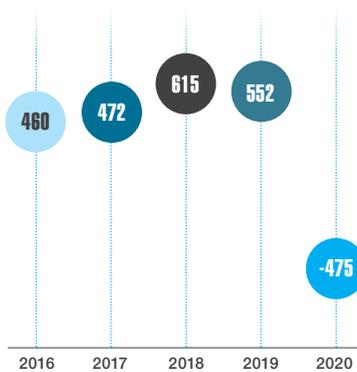
Operating Income (AED Million)



Operating Profit (AED Million)



Net profit / (loss) (AED Million)

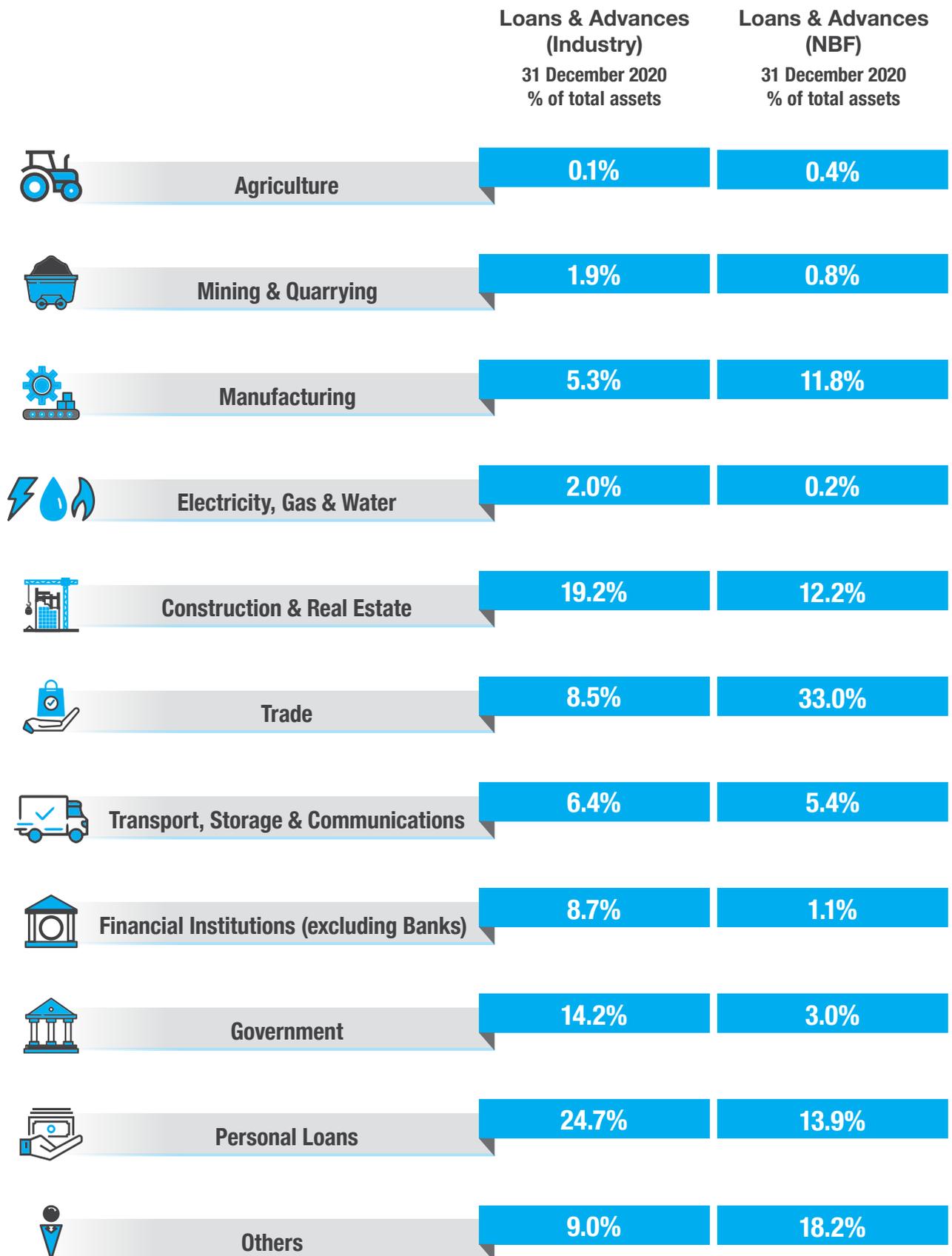


## FINANCIAL PERFORMANCE

In 2020, NBF showed a high level of resilience despite the significant impact of Covid-19 and a few exceptional group exposures.

	2020 (AED Million)	2019 (AED Million)	(%) Change
Operating Profit	894.6	1,145.2	-21.9%
Operating Income	1,385.6	1,708.1	-18.9%
Net interest income and net income from Islamic financing and investment activities	948.9	1,152.4	-17.7%
Foreign exchange and derivatives income	125.0	151.2	-17.3%
Income from investments and Islamic instruments	20.0	10.8	84.1%
Net fees and commission income	247.0	342.4	-27.9%
Operating expense	491.0	562.9	-12.8%
Net impairment losses	1,369.8	593.0	131.0%
Loss / profit for the year	-475.3	552.2	-186.1%
Loans and advances and Islamic financing receivables	24,844.2	27,095.5	-8.3%
Customer deposits and Islamic customer deposits	29,766.1	31,949.7	-6.8%
Total assets	39,872.0	42,805.3	-6.9%
Recoveries	106.3	146.6	-27.5%
Cost-to-income ratio	35.4%	33.0%	2.5%
Total provisions coverage ratio	91.8%	107.3%	-15.5%
Non-performing loans ratio	10.1%	5.4%	4.6%
Return on average equity	-7.9%	9.6%	-17.5%
Return on average assets	-1.1%	1.3%	-2.5%

NBF'S SECTOR SPECIFIC EXPERTISE DIFFERENTIATES US FROM THE CROWD



### ENTERPRISE RISK MANAGEMENT

Despite the challenging nature of 2020, NBF’s vision, mission, values and its broader strategic direction remained unchanged. Effective risk management, robust internal controls and best-practice compliance continued to be an integral part of NBF’s strategy and business discipline. The Bank constantly monitored sources of financial and non-financial risk and operated to the highest protocols of international risk management best practices.

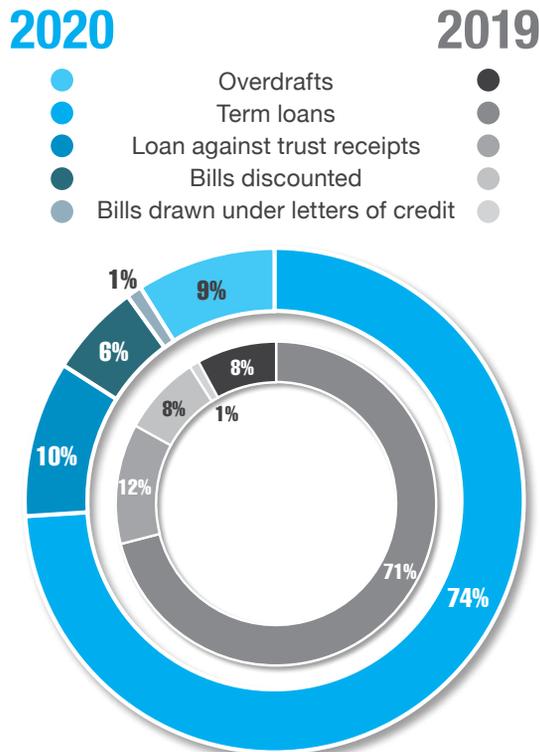
This oversight was maintained when the Bank was required to address a range of unique challenges faced in managing various non-financial risks during an unprecedented global pandemic. The Board and Management’s sound corporate governance of transitioning our business continuity capabilities for our customers, staff, principle suppliers was undertaken prudently, with the utmost due care of our employees’ safety and well-being. The Bank transitioned towards a Work From Home (WFH) model, maintaining less than 1 per cent downtime in our critical infrastructure, whilst maintaining vigilance towards our oversight of the increased inherent cyber risks facing the Bank in a new operating model.

From a credit risk management perspective, in an effort to continue to apply best practices, notwithstanding the pressures applied by the global pandemic, the Bank undertook measures to further strengthen its credit risk management capabilities. An independent Special Asset Management (SAM) unit was established and the Bank’s credit risk appetite was further reviewed to reflect changes in the current operating environment. NBF also has piloted a new digital credit underwriting management system that is expected to further strengthen its credit underwriting processes. In addition, the Bank also worked on the development of predictive analytics, with a steering committee of senior executives chaired by the CEO established to oversee this work.

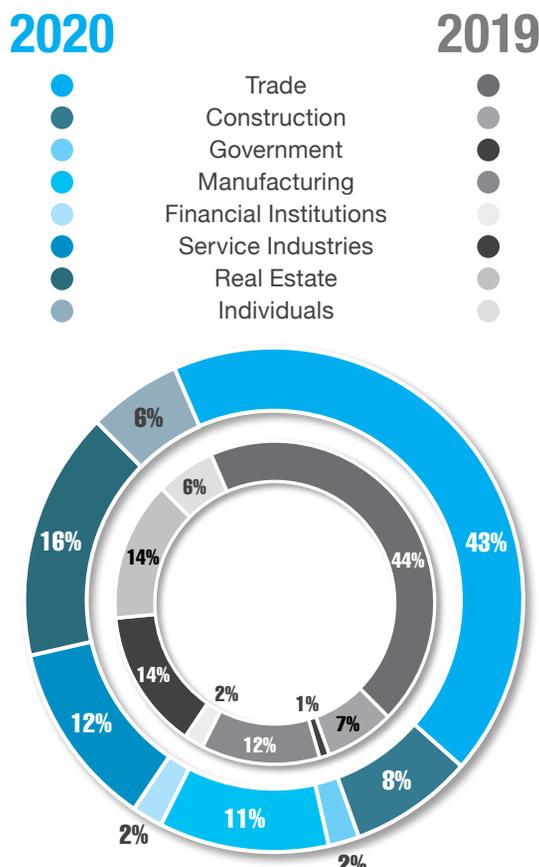
NBF continues to monitor its liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as key measures for effective liquidity management. At the end of 2020, the bank’s LCR stood at 366.5 per cent and NSFR at 106.6 per cent. The bank maintains prudent market risk limits and its trades are predominantly executed to support customer activities. NBF’s debt-based investment portfolio is managed with credit quality and liquidity as the core considerations; 92.85 per cent of the portfolio is rated BBB+ and above, compared with 82.89 per cent in 2019. As part of its risk and revenue diversification strategy, NBF invested in equity portfolios which, at the end of 2020, stood at AED 206.29 million (2019: AED 109.67 million) and contributed AED 17.5 million to total comprehensive income (2019: AED 12.87 million).

The Bank continued to re-focus on its core diversified businesses in the government sector, trade finance, financial institutions, investments and home finance. The bank continues to position its risk appetite conservatively and will look for selective high quality business opportunities to develop its business.

### Loans and Advances by type



### Sector Analysis



**COMPLIANCE**

NBF implements policies and processes to ensure compliance with all applicable UAE Laws, Central Bank of UAE Regulations and relevant global practices and standards in respect of Anti-Money Laundering (“AML”) and Counter Terrorism Financing (“CTF”). NBF’s AML/CTF program includes ongoing customer risk assessments, monitoring of client activities and a process of continual improvement to ensure NBF mitigates the risk of facilitating financial crime. NBF also actively manages conduct risk, including implementing Compliance Policies to supplement the Code of Conduct and ensures that positive customer outcomes are at the core of our client engagement.

**THE YEAR AHEAD**

**REGAINING PROFITABILITY**

2021 will be about working towards accelerated recovery and returning to profitability. As market conditions improve, vaccine availability increases, and positive sentiment returns, NBF’s priority will be enabling its customers to get back to business. The bank expects the economy to gradually regain momentum, and this will both feed into NBF’s operating income and allow the bank to draw a line under the exceptional items that impacted its bottom line so severely in 2020.

Despite the challenges and difficulties faced in 2020, the bank’s continued focus on core business, risk management, transparency and a close focus on consolidation and financial stability will ensure that NBF moves forward in 2021 and beyond in a strong position. The bank will continue to invest in digitalisation and innovation, with the launch of NBFX, a state-of-the-art Digital Electronic Trading Platform, to take place in early 2021.

**GROWTH PLAN**

The bank will continue to grow its core business through a clear focus on quality and prudent credit underwriting. It will further re-organise to strengthen its credit risk management processes and focus on core diversified businesses in the government sector, trade finance, financial institutions, investments and home finance. NBF will be cautious with its provisioning given the current environment and maintain a close watch on its costs. It will also maintain steady growth in the business banking and retail home finance space, both of which have been faring well in the current environment.

**CLIENTS PARTNERSHIPS – A RENEWED FOCUS**

Empowering Corporates & SMEs: NBF is well known for its tradition and legacy of long-term partnerships. While automation and technology is at the forefront of today’s business structure, together with digital transformation we will continue to take pride in being a partner to our clients while maintaining a ‘human bank’ experience which is becoming a rare commodity in today’s age.

His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, and Ruler of Dubai, stated that the UAE’s priority is to be the fastest recovering economy in the world – and the most stable and diversified one in the long term.

The country’s businesses face numerous challenges as the economy gets back on its feet, and NBF is committed to not only helping them navigate, but enabling them to thrive. The bank will be supporting clients as they emerge from the global pandemic and embrace new opportunities. It will empower businesses and help them build confidence and find success, provide connectivity through platforms such as NBF CONNECT, and offer guidance through thought leadership projects, tailored services and counseling.

Our tailored solutions will also include the launch of ‘Al Bidaya’, a set of customised, fee-free banking solutions offered under ‘NBF Elham’, where our specific focus is on supporting Emirati businesswomen. This offering is unique in this market and is something that NBF can do well given the bank’s history in corporate and commercial banking.

Serving Retail Segment: NBF has made a number of investments in its products and services over the last few years to ensure ease and convenience for its Retail customers. These have included workplace banking and a door-step service for Priority customers. Recent additions have included Baraem (a children’s account) and Fee Free services, together with Investment Management solutions. In 2021, the bank will enhance its online and mobile banking solutions to further facilitate the apt provision of services and solutions.

The teams are also adding countless efforts to introduce more robust methods to timely collect ‘customer experience feedback’ through multiple digital platforms and in-branch services. These efforts will further help us enhance our service quality.

Shari’a complaint solutions: Together with a variety of tailored solutions, NBF will continue to focus on further leveraging NBF Islamic. With the introduction of technological solutions, the bank has been able to increase efficiencies within this segment, thus placing NBF at the forefront of cost efficiencies when it comes to setting up the infrastructure necessary for Islamic banking. NBF will continue to harness the power of technology in this segment, including the launch of social media and digital engagement initiatives.

**OUR TEAM**

NBF is an award-winning bank in the UAE for its employee experience and is known for introducing solutions and benefits as a trendsetter. With much of the world working remotely during 2020, NBF continued to put its team first and to provide flexible working options, such as working from home, virtual facilities, and employee wellbeing initiatives. This will continue in 2021 as the bank drives organisational performance and efficiency, and continues to build strong links between overall NBF strategies and the individual departments and team objectives that make the bank what it is. Deeper synergies between organisational key objectives and the bank’s broader vision will be enhanced in 2021 via the introduction of a ‘balanced scorecard’ at both the departmental and individual employee level. The bank will also continue to contribute to the development of the country’s next generation of Emirati talent.

# 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. We believe high standards of corporate governance are key contributors to the long-term success of any business, creating trust and engagement between the company and its stakeholders. This belief and subsequent approach underpin our business model.

Striving to deliver exemplary business outcomes based on strong risk management and governance is a core aspect of the Bank's strategic intent and we have clear, comprehensive governance policies, procedures and practices in place throughout the bank. In this Corporate Governance Report, we outline the key aspects of the Bank's corporate governance framework, including the role and responsibilities of the Board and each of its committees. We continue to review and develop this framework in light of changes in the Bank's businesses, the regulatory environment, and in line with internationally recognised practices.

The Board of Directors' primary responsibility is to provide effective governance and oversight 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 representative office Belgium, are supervised by regulators in those jurisdictions.

## 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 and evolving stakeholder expectations.

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.

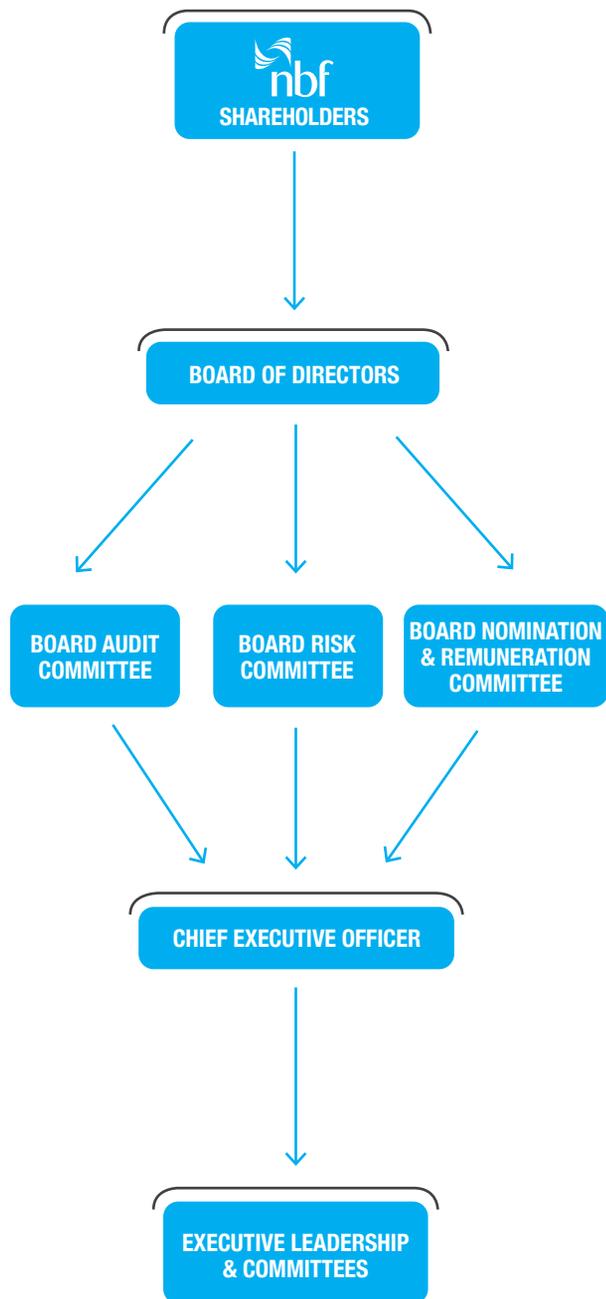
\* NBF Capital Limited is in the process of being liquidated and will be voluntarily wound up pursuant to the articles of association of the Company and in accordance with regulatory requirements.

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**

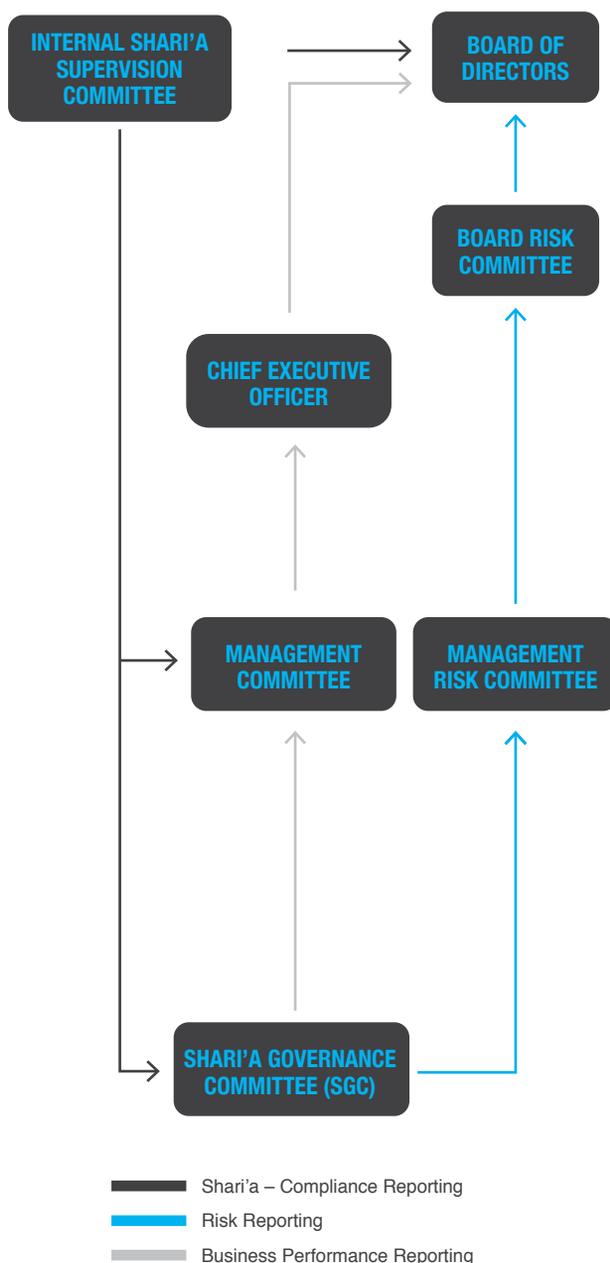
Our governance structure is robust. At executive level, the Management Committee and Management Risk Committee oversee and provide strategic direction to various other committees in the Bank. The committees also monitor local and international best practices regularly, and review and make recommendations to the Board to enhance the Bank’s governance practices in order to achieve high standards of corporate governance.



**ISLAMIC BANKING GOVERNANCE**

We have established a Shari’a Governance Framework, an internal Shari’a Supervision Committee and a Shari’a audit process to ensure our Shari’a governance practices comply with best practices. We maintain independent records and accounts for NBF Islamic, a core segment of our business. The Bank’s priority is to continue developing NBF Islamic, encompassing a comprehensive range of solutions for both retail and corporate banking segments, particularly through the successful adoption of digital solutions and technology platforms, while adhering to the best practice governance standards and Shari’a principles.

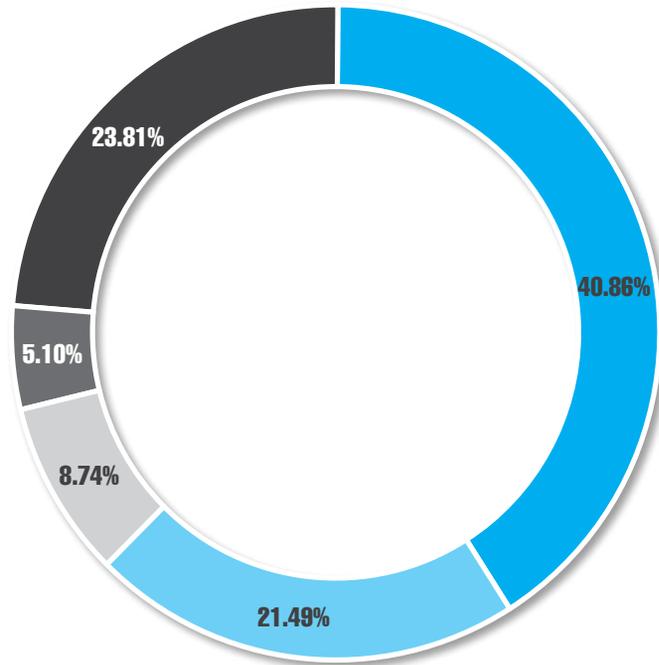
**NBF ISLAMIC – SHARI’A GOVERNANCE STRUCTURE**



## SHAREHOLDERS

As of 31 December 2020, NBF's shareholders were:

- Department of Industry and Economy – Government of Fujairah
- Easa Saleh Al Gurg LLC
- Investment Corporation of Dubai
- Fujairah Investment Company
- Rest of the United Arab Emirates based shareholders



2020: During the year, 10,000 shares representing 0.0005 per cent of the Bank's shares were traded (2019: 601,750 shares representing 0.03 per cent of the Bank's shares were traded). The market capitalisation of the Bank was AED 9.5 billion (2019: AED 9.2 billion).

## THE BOARD

Board composition is as follows:

Board of Directors	NBF, "the Bank"
His Highness Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	Chairman
Dr. Raja Easa Al Gurg	Deputy Chairperson
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, 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 statutory financial statements and relevant reporting
- Risk Management and Compliance matters
- 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 the 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 periodically 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 74.7 per cent in 2020. Our advances to deposits ratio stood at 83.5 per cent.

Our balance sheet is well-diversified and our eligible liquid assets ratio at the end of 2020 was 20.8 per cent.

We monitor our liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). At 31 December 2020, the Group's NSFR and LCR stood at 107 per cent (2019: 106 per cent) and 366 per cent (2019: 440 per cent) respectively.

NBF maintains prudent market risk limits in 2020 and our trading activities are executed predominantly to support customer activities.

We ended the year with a capital adequacy ratio of 19.2 per cent, a tier 1 ratio of 18.1 per cent and common equity ratio of 14.0 per cent significantly ahead of minimum regulatory requirement.

## REGULATORY COMPLIANCE

NBF is committed to the highest global compliance and anti-money laundering standards, to the protection of the UAE financial system, and to the delivery of consumer protection outcomes for customers when interacting with the Bank.

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.

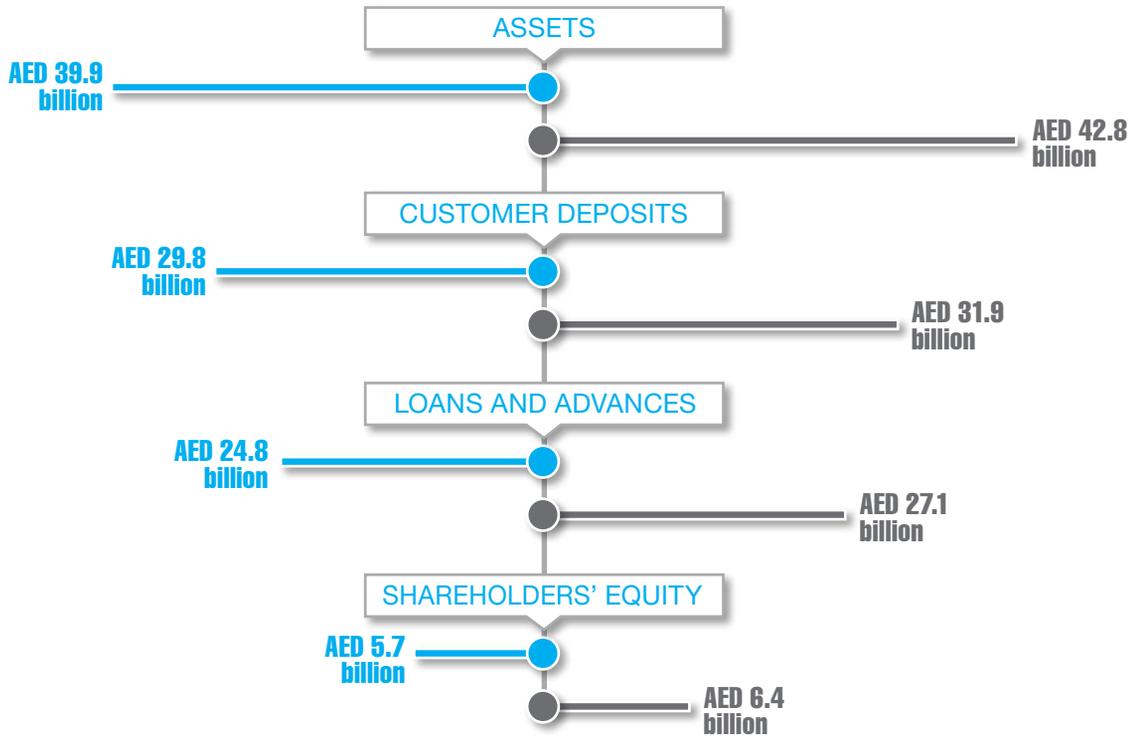
## Performance and Risk Indicators

	31 Dec 2020	31 Dec 2019
Return on average assets	-1.1%	1.3%
Return on average equity	-7.9%	9.6%
Cost to income ratio	35.4%	33.0%
Capital Adequacy Ratio (CAR)	19.2%	17.8%
Tier 1 Ratio	18.1%	16.6%
Loan to deposits ratio	83.5%	84.8%
Eligible liquid asset ratio	20.8%	21.7%

## FINANCIAL RESULTS

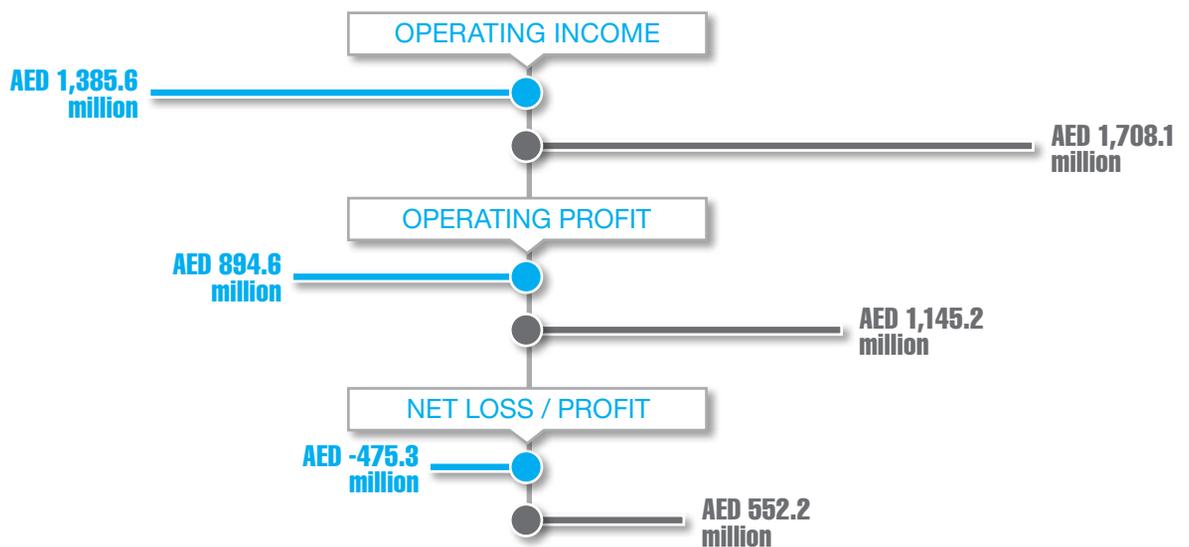
## Statement of Financial Position

■ 2020 ■ 2019



## Statement of Income

■ 2020 ■ 2019



## BOARD & BOARD COMMITTEES

In 2020, 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 2020.

### 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	2023	C			C
Dr. Raja Easa Al Gurg	2023	DC			M
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	2023	M	C	M	
Hussain Mirza Al Sayegh	2023	M			
Dr. Sulaiman Mousa Al Jassim	2023	M			
Saif Sultan Al Salami	2023	M	M	M	M
Mohamed Obaid Bin Majed Al Aleeli	2023	M	M		
Abdulla Fareed Al Gurg	2023	M	M	M	
Ahmed Saeed Al Raqbani	2023	M		C	
Sekhar T N	July 2021		*	*	
Vince Cook	CEO	I	I	I	I
Adnan Anwar	Deputy CEO	I	I	I	
Balaji Krishnamurthy	COO	I		I	
Justin Morgan-Cooper	CRO		I		
Kevin Taylor	HOIA		I	I	
Abdulla AlAter	HOHR			I	
Vikram Pradhan	HOC&IB			I	
Total no. of meetings		8	4	4	4
Approvals by circulation		2	1	1	0

C: Chairman | DC: Deputy Chairperson | M: Member | \*IPM: 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 2020, there were 84 credit applications forwarded to the Board for approval.

## APPOINTMENT, RETIREMENT AND RE-ELECTION

The Board of Directors was elected on 18 March 2020, for a term of three years.

The Chairman, Deputy Chairperson 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 2020	Shareholding at 31 December 2020	Change
<b>Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi</b>	-	-	-
<b>Dr. Raja Easa Al Gurg</b>	46,280	47,899	3.5%
<b>Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi</b>	-	-	-
<b>Hussain Mirza Al Sayegh</b>	-	-	-
<b>Dr. Sulaiman Mousa Al Jassim</b>	1,578,867	1,634,127	3.5%
<b>Saif Sultan Al Salami</b>	-	-	-
<b>Mohamed Obaid Bin Majed Al Aleeli</b>	402,408	416,492	3.5%
<b>Abdulla Fareed Al Gurg</b>	-	-	-
<b>Ahmed Saeed Al Raqbani</b>	-	-	-

## 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 our 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 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, Deputy CEO (DCEO), Chief Risk Officer (CRO) and Head of Internal Audit (HOIA) are invitees. The responsibilities of the Committee include, but are not limited to the following:

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

- Review of Internal Capital Adequacy Assessment Process (ICAAP) submission to the Central Bank of the UAE,
- Review of the quality, structure and adequacy of capital and economic capital allocation
- Review of the Basel III, liquidity and leverage review methodologies
- Monitoring of group compliance with legal and regulatory obligations, [including customer complaints], and
- Review of major disclosure documentation prior to issue to the market.

Audit Committee of the Board consists of four Board members and an independent professional. Head of internal audit (HOIA), CEO, DCEO and COO are invitees. Steered by the member 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 rules and practices,
- Reviewing the group's internal control systems for effectiveness, and
- 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 Chairperson and a Board member. The responsibilities of the Committee include, but are not restricted to the following:

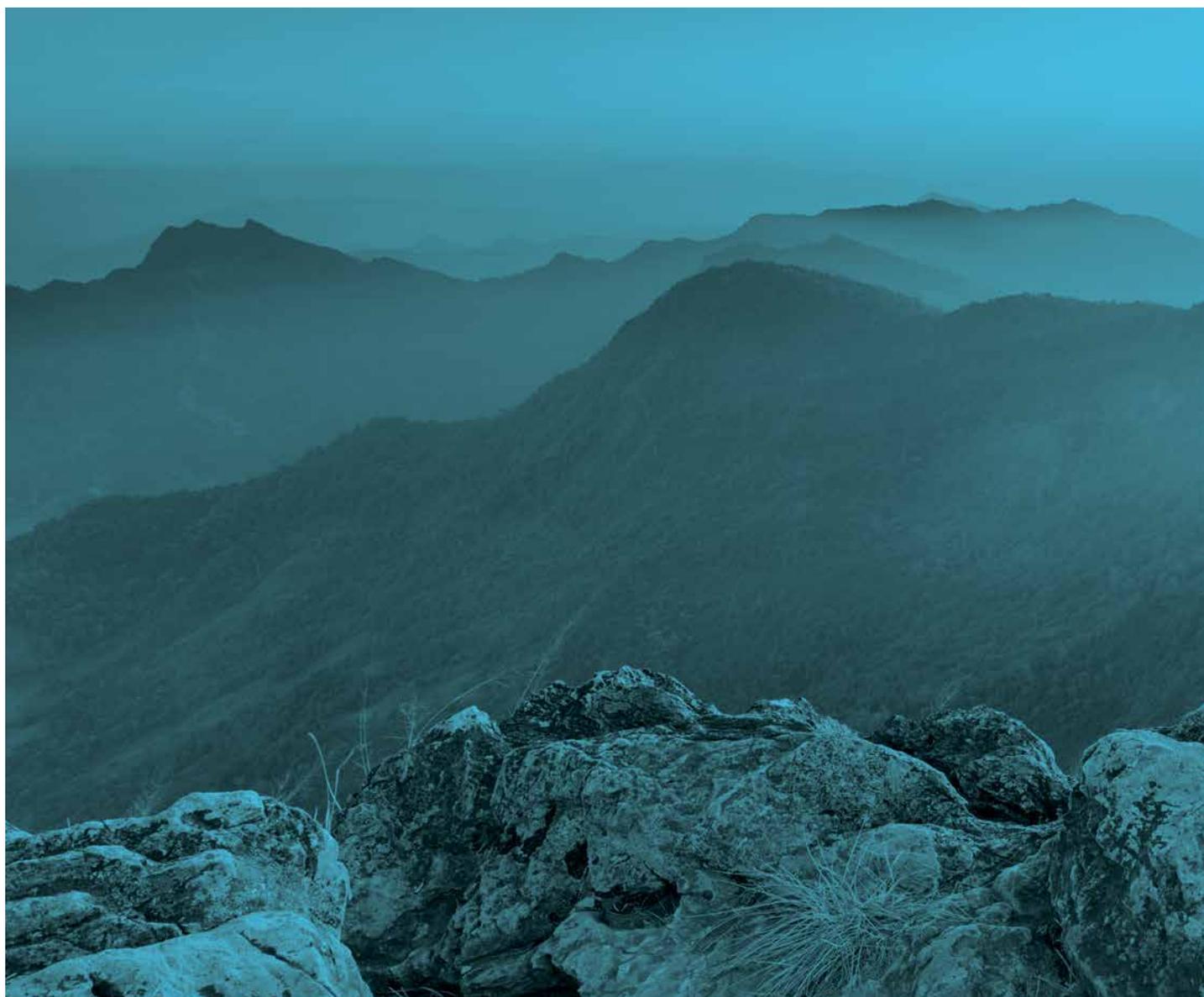
- Making recommendations to the Board relating to the appointment, reappointment and succession planning of the Directors, except for the position of Chairman,
- Considering appointment, termination and succession planning for the CEO and other senior management positions,
- Reviewing the remuneration 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, and
- Reviewing the performance of the Board.

## BOARD COMMITTEES ATTENDANCE ALLOWANCES

### Board of Directors – Board Committees attendance allowances and interests in the Bank’s shares

The Board Committees attendance allowances of the members is fixed for the year and paid annually, in line with the approval of the Annual General Assembly Meeting. For 2020, the total amount was AED 2.4 million, which was charged to the statement of income. The Board Nomination and Remuneration Committee decided to reduce Board Committees attendance allowances by 50 per cent compared with last year in view of the Bank’s net loss.

Board Committees attendance allowances paid during 2020 for year 2019	AED per annum
Chairman	800,000
Deputy Chairman	800,000
Director and Board Secretary	400,000 (Per Person)



## MANAGEMENT COMMITTEE

Vince Cook	Chief Executive Officer
Adnan Anwar	Deputy Chief Executive 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



## AUDITORS AND INDEPENDENCE

Ernst & Young (EY) 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 2020. The fee for the external audit of the Bank and its subsidiaries for the year ended 31 December 2020 was AED 615,000.

In addition, the engagement fee for other services rendered amounted to AED 7,346. All non-audit work is pre-approved by the Board.

Ernst & Young Middle East,  
28th Floor, Al Saqr Business Tower, Sheikh Zayed Road,  
P.O. Box: 9267, Dubai, United Arab Emirates

**Telephone: +971 4 332 4000**

**Facsimile: +971 4 332 4004**

## 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

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](mailto:NBF-investorrelations@nbf.ae)**

**Website: [www.nbf.ae](http://www.nbf.ae)**

(refer to the investor relations section for further details)

### STRATEGIC MARKETING AND COMMUNICATIONS DEPARTMENT

**E-mail: [corpcomm@nbf.ae](mailto:corpcomm@nbf.ae)**

# Internal Shari'a Supervision Committees Report

Monitoring and supervision of Shari'a-compliant banking.

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

## **ANNUAL REPORT OF THE INTERNAL SHARI'A SUPERVISION COMMITTEE**

(NBF Islamic, the Islamic window of National Bank of Fujairah PJSC)

Issued on: 28 January 2021

To: Shareholders of National Bank of Fujairah ("the Institution")

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards ("the Regulatory Requirements"), the Internal Shari'a Supervision Committee of the Institution ("ISSC") presents to you the ISSC's Annual Report regarding Shari'a-compliant businesses and operations of the Institution for the financial year ending on 31 December 2020 ("Financial Year").

### **1. Responsibility of the ISSC**

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

- a. undertake Shari'a supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Institution's Activities") and issue Shari'a resolutions in this regard, and
- b. determine Shari'a parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'a within the framework of the rules, principles, and standards set by the Higher Shari'a Authority ("HSA") to ascertain compliance of the Institution with Islamic Shari'a.

The senior management is responsible for compliance of the Institution with Islamic Shari'a in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ("Compliance with Islamic Shari'a") in all Institution's Activities, and the Board bears the ultimate responsibility in this regard.

### **2. Shari'a Standards**

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'a standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'a requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities with the exception of certain gaps in line with the industry practices which have been submitted to HSA with the institution's compliance plan in line with HSA guidelines.

### **3. Duties Fulfilled by the ISSC During the Financial Year**

The ISSC conducted Shari'a supervision of the Institution's Activities by reviewing those Activities, and monitoring them through the internal Shari'a control and internal Shari'a audit in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC's activities included the following:

- a. Convening 2 meetings during the year.
- b. Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.

- c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.
- d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between investment accounts holders and shareholders with parameters set by the ISSC.
- e. Supervision through the internal Shari'a control and internal Shari'a audit of the Institution's Activities including supervision of executed transactions and adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
- f. Providing guidance to relevant parties in the Institution – to rectify (where possible) incidents cited in the reports prepared by internal Shari'a control and internal Shari'a audit and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes
- g. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future
- h. Specifying the amount of Zakah due on each share of the institution.
- i. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'a.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'a.



## 4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'a requirements.

## 5. The ISSC's Opinion on the Shari'a Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'a, the ISSC has concluded with a reasonable level of confidence, that the Institution's Activities are in compliance with Islamic Shari'a,

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

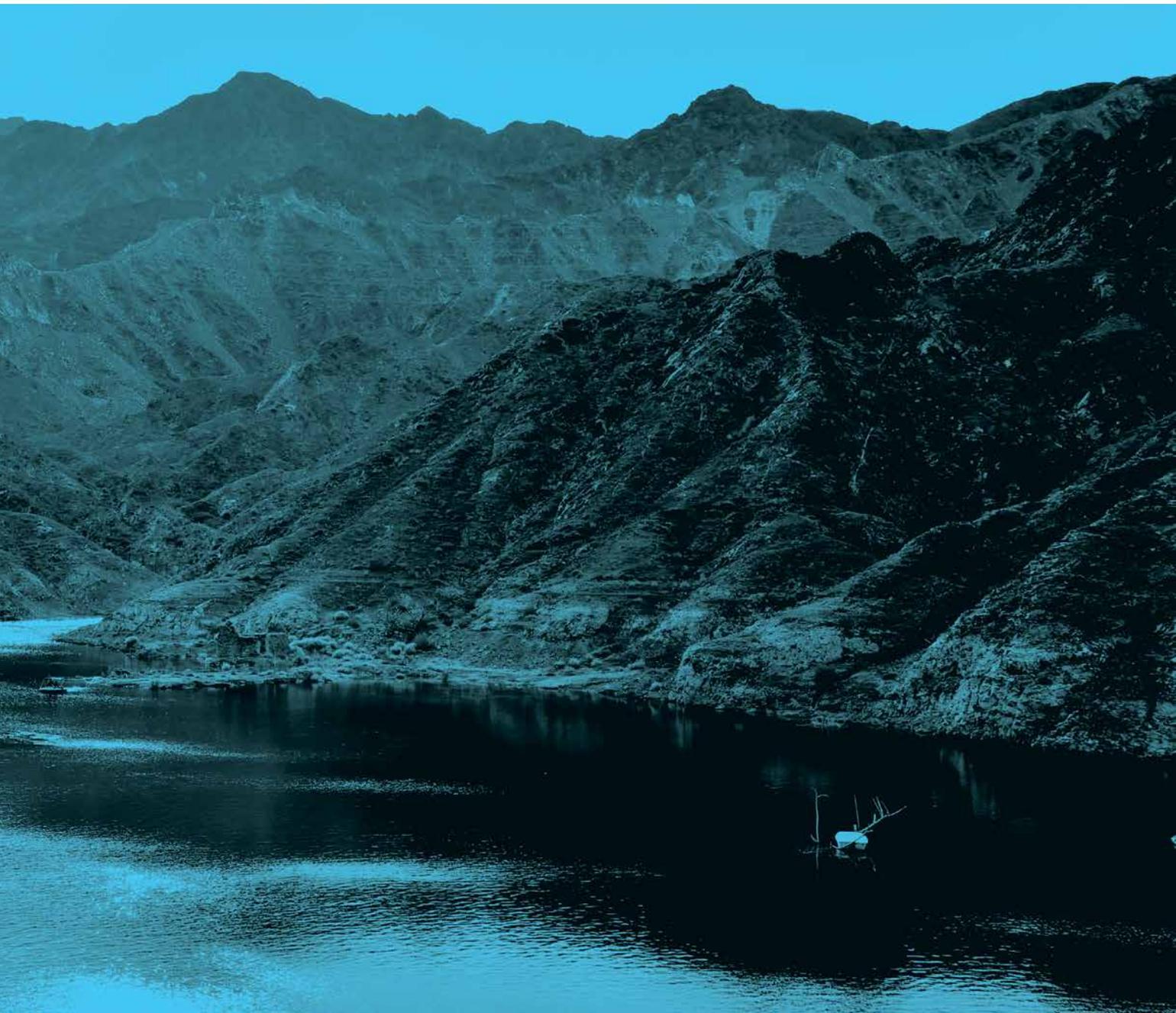
Dr. Mohd Daud Bakar (Chairman)



Dr. Abdul Rahman Al Saadi (Deputy Chairman)



Dr. Salim Al Ali (Executive Member)



# Independent Auditor's Report

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



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF FUJAIRAH PJSC

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Opinion

We have audited the consolidated financial statements of National Bank of Fujairah PJSC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income and consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### 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 are independent of the Group in accordance with the *International - Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of

procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### Key Audit Matter: Expected credit losses ("ECL") for loans and advances and Islamic financing receivables

*Refer to note 10 of the consolidated financial statements.*

The balance of loss allowances on loans and advances and Islamic financing receivables represents management's best estimate, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9").

Management first assesses whether the credit risk of loans and advances and Islamic financing receivables to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL.

For loans and advances and Islamic financing receivables classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default, discount rates and macroeconomic inputs.

For loans and advances and Islamic financing receivables in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans.

Management has also applied significant level of judgement in areas noted above in determining the impact of COVID-19 on the allowances for credit losses by considering the following:

1. Forward looking information, including variables used in macroeconomic scenarios and their associated weightings,
2. Stress in specific sectors and industries, and
3. Impact of Government support measures.

We considered ECL for loans and advances and Islamic financing receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of loans and advances and Islamic financing receivables into stages 1, 2 or 3, assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc., and additional overlays to reflect current or future external factors. These judgments have a material impact on the consolidated financial statements of the Group.

#### How our Audit Addressed the Key Audit Matter

We have obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Group's credit impairment provision policy and the ECL modelling methodology.

We have performed process walkthroughs to identify the controls over ECL process. We have tested design and operational effectiveness of the following internal controls relating to the measurement of ECL:

- Review and approval of classification of loans and advances and Islamic financing receivables.
- The management regular monitoring of:
  - i) staging and ECL for loans and advances and Islamic financing receivables
  - ii) identification of loans displaying indicators of impairment (including more than 90 days past due) under stage 3
  - iii) macroeconomic variables and forecast
  - iv) performance of ECL models
- The review and approval of management overlays and the governance process around such overlays.
- The model validation function.

We have performed the following substantive audit procedures:

- Reviewed the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates, cure rate, and discount rate.
- For selected samples, we performed procedures to determine whether significant increase in credit risk have been correctly identified.
- For forward-looking measurements, reviewed management's selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis.
- We have reviewed the impact on expected credit losses on account of COVID 19 with specific focus on reassessment of macroeconomic weights, impact of financial stress on various industries and the consideration of Government support measures.
- For selected samples, we examined keydata inputs into the ECL models.
- We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy.
- We assessed the appropriateness of disclosures in the consolidated financial statements against the requirements of IFRS.

## Other Information

Other information consists of the information included in the Group's Annual Report 2020, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and 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, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance 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 skepticism throughout the audit.

- 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 Bank'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 management's 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 year 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

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

- i) the Group has maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- 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 reflects the shares purchased by the Bank during the year;
- vi) note 29 reflects material related party transactions and the terms under which they were conducted;
- vii) 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 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of Bank, its Memorandum and Articles of Association which would have a material impact on its activities or its financial position; and
- viii) note 26 reflects the social contributions made during the year.

Further, as required by 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.

For Ernst & Young

Joseph Alexander Murphy  
Partner

Registration No: 492  
Dubai, United Arab Emirates  
28 January 2021

# 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 2020

	Note	2020 AED'000	2019 AED'000
<b>Assets</b>			
Cash and balances with the UAE Central Bank	7	5,228,531	6,864,369
Due from banks and financial institutions	8	1,649,695	2,345,720
Investments and Islamic instruments	9	5,187,044	3,367,190
Loans and advances and Islamic financing receivables	10	24,844,211	27,095,498
Property and equipment and capital work-in-progress	13	368,378	348,972
Other assets	14	2,594,105	2,783,508
<b>Total assets</b>		<b>39,871,964</b>	<b>42,805,257</b>
<b>Liabilities</b>			
Due to banks	15	1,362,578	1,346,810
Customer deposits and Islamic customer deposits	16	29,766,101	31,949,730
Term borrowings	15	440,760	293,840
Other liabilities	17	2,630,266	2,864,323
<b>Total liabilities</b>		<b>34,199,705</b>	<b>36,454,703</b>
<b>Equity</b>			
Share capital	18.1	1,914,762	1,850,012
Statutory reserve	18.3	936,053	936,053
Special reserve	18.3	561,899	561,899
Fair value reserve		92,583	31,409
Proposed cash dividends	18.2	-	185,002
Proposed bonus issue	18.2	-	64,750
Impairment reserve	12.2	283,469	363,069
Retained earnings		597,943	1,072,810
Tier 1 capital securities	19	1,285,550	1,285,550
<b>Total equity attributable to equity and securities holders of the Group</b>		<b>5,672,259</b>	<b>6,350,554</b>
<b>Total liabilities and equity</b>		<b>39,871,964</b>	<b>42,805,257</b>

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 28 January 2021 and are signed on its behalf by:



**Saleh Bin Mohamed Bin Hamad Al Sharqi**  
Chairman



**Dr. Raja Easa Al Gurg**  
Deputy Chairperson

The notes on pages 41 to 99 form an integral part of these consolidated financial statements.  
The report of the independent auditor is set out on pages 31 to 34.

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

	Note	2020 AED'000	2019 AED'000
Interest income and income from Islamic financing and investment activities	20	1,462,722	1,935,379
Interest expense and distribution to Islamic depositors	21	(513,836)	(783,019)
<b>Net interest income and net income from Islamic financing and investment activities</b>		<b>948,886</b>	<b>1,152,360</b>
Fees and commission income		279,111	368,513
Fees and commission expense		(32,085)	(26,127)
<b>Net fees and commission income</b>	22	<b>247,026</b>	<b>342,386</b>
Foreign exchange and derivatives income		124,977	151,166
Income from investments and Islamic instruments		19,950	10,837
Other operating income	23	44,712	51,337
<b>Operating income</b>		<b>1,385,551</b>	<b>1,708,086</b>
<b>Operating expenses</b>			
Employee benefits expense	24	(294,815)	(356,618)
Depreciation and amortization	13	(31,464)	(36,775)
Other operating expenses		(164,704)	(169,489)
<b>Total operating expenses</b>		<b>(490,983)</b>	<b>(562,882)</b>
<b>Operating profit before impairment losses</b>		<b>894,568</b>	<b>1,145,204</b>
Net impairment losses	27	(1,369,820)	(593,021)
<b>(Loss) / profit for the year</b>		<b>(475,252)</b>	<b>552,183</b>
<b>(Loss) / earnings per share (basic and diluted)</b>	28	<b>AED (0.29)</b>	<b>AED 0.26</b>

The notes on pages 41 to 99 form an integral part of these consolidated financial statements.  
The report of the independent auditor is set out on pages 31 to 34.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 AED'000	2019 AED'000
<b>(Loss) / profit for the year</b>	<b>(475,252)</b>	<b>552,183</b>
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified subsequently to income statement:</b>		
Movement in fair value reserve (equity instruments):		
- Net change in fair value	5,311	12,064
<b>Items that may be reclassified subsequently to income statement:</b>		
Movement in fair value reserve (debt instruments):		
- Net change in fair value	74,770	52,620
- Net change in allowances for impairment	(1,727)	(774)
- Net amount transferred to income statement	(17,180)	(4,569)
<b>Other comprehensive income for the year</b>	<b>61,174</b>	<b>59,341</b>
<b>Total comprehensive (loss) / income for the year</b>	<b>(414,078)</b>	<b>611,524</b>

The notes on pages 41 to 99 form an integral part of these consolidated financial statements.  
The report of the independent auditor is set out on pages 31 to 34.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 AED'000	2019 AED'000
<b>Operating activities</b>			
<b>(Loss) / profit for the year</b>		<b>(475,252)</b>	<b>552,183</b>
Adjustments for:			
Depreciation and amortization	13	31,464	36,775
Provision for employee end of service and other long term benefits	17.1	15,429	16,995
Gain on disposal of property, plant and equipment		(9)	-
Net impairment losses	27	1,369,820	593,021
Net fair value gains on disposal of investments and Islamic instruments		(21,240)	(3,320)
Net changes in fair value of investments at fair value through profit or loss		2,558	(7,517)
<b>Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits</b>		<b>922,770</b>	<b>1,188,137</b>
Payment of employee end of service and other long term benefits	17.1	(15,163)	(12,890)
Change in due from central bank		3,333,210	(1,915,190)
Change in due from banks and financial institutions		517,822	(435,753)
Change in loans and advances and Islamic financing receivables		925,250	(1,438,889)
Change in other assets		189,403	(346,454)
Change in due to banks		825,338	45,859
Change in customer deposits and Islamic customer deposits		(2,183,629)	1,477,259
Change in other liabilities		(258,821)	24,056
<b>Net cash generated from / (used in) operating activities</b>		<b>4,256,180</b>	<b>(1,413,865)</b>
<b>Investing activities</b>			
Purchase of property and equipment and capital work-in-progress		(66,607)	(58,232)
Proceeds from sale of property and equipment		9	-
Purchase of investments and Islamic instruments		(3,561,826)	(2,185,671)
Proceeds from sale of investments and Islamic instruments		1,818,040	1,601,279
<b>Net cash used in investing activities</b>		<b>(1,810,384)</b>	<b>(642,624)</b>
<b>Financing activities</b>			
Proceeds from term borrowings		606,045	183,650
Repayment of term borrowings		(459,125)	(752,965)
Cash dividends paid		(185,002)	(123,334)
Proceeds from issue of Additional Tier 1 (AT1) capital securities		-	1,285,550
Buy-back of tier 1 capital notes		-	(500,000)
Tier 1 capital securities / notes coupon paid		(75,526)	(38,969)
AT1 capital securities issuance cost		(1,028)	(6,083)
<b>Net cash (used in) / generated from financing activities</b>		<b>(114,636)</b>	<b>47,849</b>
<b>Net change in cash and cash equivalents</b>		<b>2,331,160</b>	<b>(2,008,640)</b>
Cash and cash equivalents at beginning of the year		1,046,739	3,055,379
<b>Cash and cash equivalents at end of the year</b>	30	<b>3,377,899</b>	<b>1,046,739</b>

The notes on pages 41 to 99 form an integral part of these consolidated financial statements.  
The report of the independent auditor is set out on pages 31 to 34.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Proposed dividends	Retained earnings	Impairment reserve	Tier 1 capital securities / notes	Total
<b>At 01 January 2020</b>	<b>1,850,012</b>	<b>936,053</b>	<b>561,899</b>	<b>31,409</b>	<b>249,752</b>	<b>1,072,810</b>	<b>363,069</b>	<b>1,285,550</b>	<b>6,350,554</b>
Loss for the year	-	-	-	-	-	(475,252)	-	-	(475,252)
Other comprehensive (loss) / income for the year	-	-	-	61,174	-	(1,268)	-	-	59,906
<b>Total comprehensive (loss) / income for the year</b>	-	-	-	<b>61,174</b>	-	<b>(476,520)</b>	-	-	<b>(415,346)</b>
Excess provisions under UAE central bank requirements over IFRS 9 (note 12.2)	-	-	-	-	-	79,600	(79,600)	-	-
AT1 capital securities issuance cost	-	-	-	-	-	(1,028)	-	-	(1,028)
Tier 1 capital securities coupon paid (note 19)	-	-	-	-	-	(75,526)	-	-	(75,526)
Zakat payable (note 32)	-	-	-	-	-	(1,393)	-	-	(1,393)
Transfer to reserves	-	-	-	-	-	-	-	-	-
2019 cash dividends paid	-	-	-	-	(185,002)	-	-	-	(185,002)
2019 bonus shares issued	64,750	-	-	-	(64,750)	-	-	-	-
<b>At 31 December 2020</b>	<b>1,914,762</b>	<b>936,053</b>	<b>561,899</b>	<b>92,583</b>	-	<b>597,943</b>	<b>263,469</b>	<b>1,285,550</b>	<b>5,672,259</b>
<b>At 01 January 2019</b>	<b>1,644,455</b>	<b>936,053</b>	<b>506,492</b>	<b>(27,932)</b>	<b>328,891</b>	<b>967,467</b>	<b>266,440</b>	<b>500,000</b>	<b>5,121,866</b>
Profit for the year	-	-	-	-	-	552,183	-	-	552,183
Other comprehensive income for the year	-	-	-	59,341	-	-	-	-	59,341
<b>Total comprehensive income for the year</b>	-	-	-	<b>59,341</b>	-	<b>552,183</b>	-	-	<b>611,524</b>
Excess provisions under UAE central bank requirements over IFRS 9 (note 12.2)	-	-	-	-	-	(96,629)	96,629	-	-
Issue of Additional Tier 1 (AT1) capital securities (note 19)	-	-	-	-	-	-	-	1,285,550	1,285,550
AT1 capital securities issuance cost	-	-	-	-	-	(6,083)	-	-	(6,083)
Buy back of tier 1 capital notes (note 19)	-	-	-	-	-	-	-	(500,000)	(500,000)
Tier 1 capital notes coupon paid (note 19)	-	-	-	-	-	(38,969)	-	-	(38,969)
Proposed cash dividends	-	-	-	-	185,002	(185,002)	-	-	-
Proposed bonus issue	-	-	-	-	64,750	(64,750)	-	-	-
Transfer to reserves	-	-	55,407	-	-	(55,407)	-	-	-
2018 cash dividends paid	-	-	-	-	(123,334)	-	-	-	(123,334)
2018 bonus shares issued	205,557	-	-	-	(205,557)	-	-	-	-
<b>At 31 December 2019</b>	<b>1,850,012</b>	<b>936,053</b>	<b>561,899</b>	<b>31,409</b>	<b>249,752</b>	<b>1,072,810</b>	<b>363,069</b>	<b>1,285,550</b>	<b>6,350,554</b>

The notes on pages 41 to 99 form an integral part of these consolidated financial statements. The report of the independent auditor is set out on pages 31 to 34.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 2020

### 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 Bank's key shareholders include the Department of Industry and Economy – Government of Fujairah, Easa Saleh Al Gurg LLC and Investment Corporation of Dubai.

The principal activity of the Bank is commercial banking which is carried out from its network of fifteen branches, including one electronic banking service unit, across the UAE in emirates of Fujairah, Abu Dhabi, Dubai and Sharjah.

The Bank has two 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 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 Capital Limited is in the process of being liquidated and will be voluntarily wound up pursuant to the articles of association of the Company and in accordance with regulatory requirements. NBF Capital Limited was registered in the Dubai International Financial Centre (DIFC) as a private company 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 were arranging credit or deals in investments, advising on financial products or credit, and dealing in investments as agent, managing assets and managing collective investment fund.

The consolidated financial statements for the year ended 31 December 2020 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 quarterly while complete consolidated financial statements are prepared and presented annually 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 Strategic Marketing and Communications 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.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and non-financial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in note 5(c) of these consolidated financial statements.

## 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 2020

##### Amendments to IAS 1 and IAS 8: Definition of Material (effective date: 01 January 2020)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the Definition of Material do not have a significant impact on the Group's consolidated financial statements.

##### Interbank Offer Rate (IBOR) reform disclosure: (effective date: 01 January 2020)

Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and / or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and / or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an "RFR"). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative RFR. The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project. Details of IBOR reforms and related disclosures are covered in note 5 (f) of these consolidated financial statements.

##### Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 01 January 2020 and not early adopted

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the

Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

##### IBOR reform disclosure – Phase 2

In August 2020, the IASB issued IBOR reform - Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

IBOR Reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable. The Group has assessed the impact of Phase 2 and concluded that it is not material to the Group's consolidated financial statements.

There are no other applicable new standards and amendments to the 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 2020 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 Bank.

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.

**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;

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 in note 4 (e) Impairment of financial assets.

#### Impairment of financial assets

The Group applies a three-stage approach to measuring expected credit losses (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.

#### Loan commitments and letters of credit

The ECL related to loan commitments and letters of credit are recognised in other liabilities. When estimating lifetime ECL for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn-down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn-down, based on a probability-weighting of the scenarios.

#### Guarantee contracts

The ECL related to guarantee contracts are recognised in other liabilities. For this purpose, the Group estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of the scenarios.

#### 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.

## SECTION 6

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

- 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 2020 and 31 December 2019 are set out below. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables:

#### Year 2020

Macroeconomic variables	Scenario	Assigned probabilities	2021	2022	2023	2024	2025	Subsequent years
Oil Price (USD per barrel)	Base case	40%	47.68	58.47	63.14	64.74	66.68	81.69
	Upside	20%	52.78	64.52	69.37	71.07	73.15	88.55
	Downside	40%	29.87	27.50	41.96	50.27	55.15	72.97
UAE Gross Domestic Product (GDP) (AED billion)	Base case	40%	1,431	1,470	1,503	1,540	1,581	2,221
	Upside	20%	1,494	1,574	1,606	1,637	1,676	2,330
	Downside	40%	1,294	1,270	1,319	1,385	1,454	2,084
Stock market volatility (Delta of points)	Base case	40%	23.15	24.01	24.71	23.68	23.23	23.40
	Upside	20%	20.88	22.37	23.13	22.90	23.11	23.13
	Downside	40%	35.05	23.80	23.88	23.50	23.71	23.75

#### Year 2019

Macroeconomic variables	Scenario	Assigned probabilities	2020	2021	2022	2023	2024	Subsequent years
Oil Price (USD per barrel)	Base case	40%	63.00	65.23	66.27	66.95	68.33	82.73
	Upside	30%	71.97	81.36	81.46	80.75	80.86	89.57
	Downside	30%	45.63	41.59	46.42	51.46	56.15	74.00
UAE Gross Domestic Product (GDP) (AED billion)	Base case	40%	1,491	1,525	1,560	1,599	1,640	2,285
	Upside	30%	1,506	1,575	1,629	1,666	1,693	2,304
	Downside	30%	1,417	1,361	1,368	1,430	1,494	2,155
Stock market volatility (Delta of points)	Base case	40%	27.19	22.60	22.19	22.24	22.52	22.42
	Upside	30%	23.95	20.82	21.76	21.47	22.39	22.12
	Downside	30%	41.59	22.81	22.36	22.24	22.96	22.74

#### 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	-24.63%	-35.45%	+53.31%
Stage 2	-16.22%	-24.58%	+29.11%

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 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"> <li>• Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition</li> <li>• Restructured portfolio</li> <li>• Days past due (DPD) 31-89 days</li> </ul>	<ul style="list-style-type: none"> <li>• Restructured portfolio</li> <li>• DPD 31-89 days</li> </ul>	Credit rating of Caa1 to Caa3 to be classified as Stage 2
1 » 3 2 » 3	<ul style="list-style-type: none"> <li>• Credit impaired portfolio</li> <li>• RR 20 - 22</li> <li>• DPD ≥ 90 days</li> </ul>	<ul style="list-style-type: none"> <li>• Credit impaired portfolio</li> <li>• RR 20 - 22</li> <li>• DPD ≥ 90 days</li> </ul>	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 2020.

**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  $\leq 30$  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.

**Derecognition of financial assets and liabilities**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of the ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards or ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are repurchase agreements.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

**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 the consolidated financial statements - 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.

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 and demonstrate actual 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.

**Derivative financial instruments held or issued for trading purposes**

The Bank's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates or indices.

**Derivative financial instruments held or issued for hedging purposes**

As part of its asset and liability management, the Bank uses derivatives for economic hedging purposes in order to reduce

its exposure to market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as hedging of aggregate financial position exposures. Where possible, the Bank applies hedge accounting.

**Forwards and futures**

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts, including commodity futures, are transacted at standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risks associated with forwards and futures contracts are credit and liquidity risks. The Bank has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered very low because the cash margin requirements of the exchange help ensure that these contracts are always honoured. Forward contracts are usually settled gross and are, therefore, considered to bear a higher liquidity risk than the future contracts which, unless chosen to be executed by delivery, are settled on a net basis. Both types of contracts result in market risk exposure.

**Swaps**

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other counterparties (customers and financial institutions) in which the Bank either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap (included within foreign exchange contracts), the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

Irrespective of whether settled through clearing houses or directly with the counterparties, most swaps are fully collateralised and require daily margin settlement. The practice significantly reduces the Bank's credit risk but requires more diligent liquidity management than if the positions were not collateralised.

**Options**

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide it with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written (sold) by the Bank provide the purchaser the opportunity to purchase from, or sell to, the Bank the underlying asset at an agreed value either on or before the expiration of the option. These instruments represent a higher market risk than purchased options.

**(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.

Details of fair value measurement principles and fair value hierarchy are covered in note 4 (e) of these consolidated financial statements.

**Assessment and calculation of ECL**

The calculation of ECL involves significant accounting judgements, estimates and assumptions.

The level of estimation uncertainty has increased since 31 December 2019 as a result of the economic disruption and consequential impact of the COVID-19 pandemic. This includes significant judgements relating to:

- The selection and weighting of macro-economic scenarios;
- The effect of government and other support measures put in place to mitigate the negative economic impact;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event; and
- Identification and assessment of significant increases in credit risk and impairment especially for customers who have received support under the various government and bank support schemes.

The Group incorporated the latest available macroeconomic inputs into the ECL model to reflect the change in the macroeconomic forecast with details covered in notes 4 (e) and 5 (c) 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, if any. 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.

**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 estimated useful lives of buildings, furniture and equipment and software were reassessed during the year and the impact was not significant to these consolidated financial statements. The estimated useful lives for various types of assets are as follows:

Class of asset	Estimated useful life 2020	Estimated useful life 2019
Buildings	20 to 40 years	20 to 30 years
Leasehold improvements	Over the period of lease	Over the period of lease
Furniture and equipment	5 years	4 years
Motor Vehicles	3 years	3 years
Software	7 years	5 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.

#### (j) Government grants

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

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

Due to banks, term borrowings and customer deposits and Islamic 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 consolidated 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.

#### (p) Net fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided principally into the following two categories:

- (i) Fee income earned from services that are provided over a certain period of time; and
- (ii) Fee income earned from providing transaction services.

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) Foreign exchange and derivatives income and income from investments and Islamic instruments

Foreign exchange and derivatives income and income from investments and Islamic instruments includes income from trading. 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. 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.

#### (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 / (loss) per share

The Group presents basic and diluted earnings / (loss) per share (EPS / LPS) data for its ordinary shares. Basic EPS / LPS 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 / LPS 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) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group apply a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognise lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted

for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

#### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group has the option, under some of its leases to lease the assets for an additional term. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

#### (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) Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash

received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

#### **(ab) 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. 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 procedures 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.

The Bank continued to invest in various regulatory compliance activities. The Group undertook improvements to its Anti-Money Laundering (AML) / Combating the Financing of Terrorism (CFT) / sanctions control environment and also enhanced its operational risk profile and testing to ensure effectiveness of controls.

The Group follows 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.

During 2019 and 2020, UAE Central Bank issued a number of standards and regulations on the various elements of overall Risk Management and Capital Management Framework. The standards and regulations including 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 have been effected in 2019. The Group had taken measures to adhere to the aforementioned standards and regulations to ensure compliance from the effective implementation date.

#### Model risk management

The Group has utilised models in many of its financial and business activities from underwriting a credit facility to reporting ECL under IFRS9.

To manage the model risks, the Group has implemented the Enterprise-wide Risk Management and Internal Control Framework (the Framework). The Framework is also applicable to models in all entities and subsidiaries of the Group. According to the Framework, all externally (vendor based) developed risk quantification models that directly affect the financial reporting on ECL require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and ongoing use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors.

The independent validation provides Fit-for-Purpose (FFP), Conditional Approval (CA) or Not Fit-for-Purpose (NFFP) recommendation for the Board and Management to approve the use of the new risk quantification / valuation models. In addition to new model validation, the Group evaluates the performance of existing models through a regular review and validation process through internal or external partners. The independence of these partners enables to serve as an effective second line of defense for the Group.

#### (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 various industry and portfolio segmentation reviews. 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 Energy and Marine 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.

**Sector analysis**

An analysis of sector concentrations of credit risk arising from loans and advances and Islamic financing receivables as at 31 December 2020 and 2019 is as follows:

2020 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Gross exposure Stage 3	ECL Stage 3	Write-off	Past dues	
							Upto 89 days	90 days & above
Trade	11,518,855	2,497,095	14,015,950	939,633	692,306	136,308	221,477	-
Construction	2,308,781	3,149,771	5,458,552	305,908	168,601	82,038	848	-
Government	645,571	7,639	653,210	-	-	-	-	-
Manufacturing	2,962,766	781,039	3,743,805	223,001	137,359	106,082	31,149	-
Financial institutions	464,638	323,922	788,560	63,797	30,278	-	-	-
Service industries	3,285,974	353,180	3,639,154	957,538	251,550	70,770	9,680	-
Real estate	4,231,943	-	4,231,943	156,233	35,536	-	11,430	-
Individuals	1,639,490	19,244	1,658,734	73,833	69,992	9,905	463	-
<b>Gross amount</b>	<b>27,058,018</b>	<b>7,131,890</b>	<b>34,189,908</b>	<b>2,719,943</b>	<b>1,385,622</b>	<b>405,103</b>	<b>275,047</b>	<b>-</b>

2019 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Gross exposure Stage 3	ECL Stage 3	Write-off	Past dues	
							Upto 89 days	90 days & above
Trade	12,444,362	3,172,712	15,617,074	522,074	303,716	161,724	184,491	5,027
Construction	2,260,662	3,590,933	5,851,595	191,769	102,456	18,950	92,768	2,031
Government	234,308	6,618	240,926	-	-	-	-	-
Manufacturing	3,400,847	837,628	4,238,475	270,179	178,565	197,504	51,234	-
Financial institutions	428,476	209,064	637,540	-	-	-	-	-
Service industries	4,056,789	364,730	4,421,519	419,560	156,177	36,360	36,256	66,738
Real estate	3,938,465	-	3,938,465	87,748	16,732	-	14,275	395
Individuals	1,624,829	58,635	1,683,464	52,427	43,905	2,846	1,509	-
<b>Gross amount</b>	<b>28,388,738</b>	<b>8,240,320</b>	<b>36,629,058</b>	<b>1,543,757</b>	<b>801,551</b>	<b>417,384</b>	<b>380,533</b>	<b>74,191</b>

## SECTION 6

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

### 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 2020 and 2019 is as follows:

2020 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Gross exposure Stage 3	ECL Stage 3	Write-off	Past dues	
							Upto 89 days	90 days & above
UAE	25,890,235	6,390,798	32,281,033	2,556,400	1,308,590	405,103	185,058	-
GCC	133,554	27,931	161,485	-	-	-	-	-
Europe	548,655	174,149	722,804	-	-	-	89,989	-
Americas	412,042	2,695	414,737	163,543	77,032	-	-	-
Others	73,532	536,317	609,849	-	-	-	-	-
<b>Gross amount</b>	<b>27,058,018</b>	<b>7,131,890</b>	<b>34,189,908</b>	<b>2,719,943</b>	<b>1,385,622</b>	<b>405,103</b>	<b>275,047</b>	<b>-</b>

2019 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Gross exposure Stage 3	ECL Stage 3	Write-off	Past dues	
							Upto 89 days	90 days & above
UAE	27,167,830	7,346,707	34,514,537	1,543,757	801,551	417,384	306,057	74,191
GCC	135,616	35,485	171,101	-	-	-	-	-
Europe	764,536	14,814	779,350	-	-	-	74,476	-
Americas	284,269	2,722	286,991	-	-	-	-	-
Others	36,487	840,592	877,079	-	-	-	-	-
<b>Gross amount</b>	<b>28,388,738</b>	<b>8,240,320</b>	<b>36,629,058</b>	<b>1,543,757</b>	<b>801,551</b>	<b>417,384</b>	<b>380,533</b>	<b>74,191</b>

### Currency wise analysis

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

AED'000	2020			2019		
	Funded exposure	Unfunded exposure	Gross exposure	Funded exposure	Unfunded exposure	Gross exposure
AED	21,810,994	5,156,475	26,967,469	22,533,241	5,601,310	28,134,551
USD	4,523,024	1,694,889	6,217,913	4,868,760	2,358,086	7,226,846
EUR	9,548	159,337	168,885	21,594	114,433	136,027
GBP	-	3,284	3,284	-	5,376	5,376
XAU	529,296	-	529,296	934,035	17,869	951,904
Others	185,156	117,905	303,061	31,108	143,246	174,354
<b>Gross Amount</b>	<b>27,058,018</b>	<b>7,131,890</b>	<b>34,189,908</b>	<b>28,388,738</b>	<b>8,240,320</b>	<b>36,629,058</b>

### 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.

**Risk mitigation, 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 & responsibilities of various departments and overall management of collateral in order 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 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, stand-by letter of credit (bank guarantee), 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 as follows:

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
	2020	2019	2020	2019
<b>AED'000</b>				
<b>Stage 3</b>				
Pledged deposits	486,544	248,938	28,383	9,070
Property	1,315,113	591,362	962,341	473,620
Others	918,286	703,457	-	-
<b>Gross amount</b>	<b>2,719,943</b>	<b>1,543,757</b>	<b>990,724</b>	<b>482,690</b>
<b>Life time ECL (Stage 3)</b>	<b>(1,385,622)</b>	<b>(801,551)</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>	<b>1,334,321</b>	<b>742,206</b>	<b>990,724</b>	<b>482,690</b>
<b>Stage 1 and 2</b>				
Pledged deposits	5,431,313	6,804,360	2,253,352	2,525,231
Debt / equity securities	761,504	535,562	300,356	308,488
Property	11,089,893	11,554,279	8,598,698	9,192,801
Others	7,055,365	7,950,780	126,697	-
<b>Gross amount</b>	<b>24,338,075</b>	<b>26,844,981</b>	<b>11,279,103</b>	<b>12,026,520</b>
<b>12-month ECL (Stage 1) and Life time ECL (Stage 2)</b>	<b>(828,185)</b>	<b>(491,689)</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>	<b>23,509,890</b>	<b>26,353,292</b>	<b>11,279,103</b>	<b>12,026,520</b>
<b>Total</b>	<b>24,844,211</b>	<b>27,095,498</b>	<b>12,269,827</b>	<b>12,509,210</b>

Particulars	Contingent liabilities		Collaterals	
	2020	2019	2020	2019
<b>AED'000</b>				
Pledged deposits	4,117,226	5,105,798	627,570	651,000
Others	3,014,664	3,134,522	600,679	667,599
<b>Total</b>	<b>7,131,890</b>	<b>8,240,320</b>	<b>1,228,249</b>	<b>1,318,599</b>

As at 31 December 2020, re-possessed mortgage properties amounted to **AED 303.9 million** (2019: AED 213.8 million) which have been adjusted against the outstanding receivables. These have been recorded under Other Assets.

**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 below:

**2020 Risk grades of gross loans and advances and Islamic financing receivables**

AED'000	Stage 1	Stage 2	Stage 3	Total
<b>RR 1-19</b>				
Grade RR 1 - 17: Performing or normal	21,007,308	1,458,268	-	22,465,576
Grade RR 18 - 19: Watchlist and Other Loans Especially Mentioned (OLEM)	36,064	1,836,435	-	1,872,499
<b>Total – RR 1-19</b>	<b>21,043,372</b>	<b>3,294,703</b>	<b>-</b>	<b>24,338,075</b>
<b>RR 20-22: substandard, doubtful and loss</b>	<b>-</b>	<b>-</b>	<b>2,719,943</b>	<b>2,719,943</b>
<b>Total</b>	<b>21,043,372</b>	<b>3,294,703</b>	<b>2,719,943</b>	<b>27,058,018</b>

**2019 Risk grades of gross loans and advances and Islamic financing receivables**

AED'000	Stage 1	Stage 2	Stage 3	Total
<b>RR 1-19</b>				
Grade RR 1 - 17: Performing or normal	24,187,365	528,310	-	24,715,675
Grade RR 18 - 19: Watchlist and Other Loans Especially Mentioned (OLEM)	57,317	2,071,989	-	2,129,306
<b>Total – RR 1-19</b>	<b>24,244,682</b>	<b>2,600,299</b>	<b>-</b>	<b>26,844,981</b>
<b>RR 20-22: substandard, doubtful and loss</b>	<b>-</b>	<b>-</b>	<b>1,543,757</b>	<b>1,543,757</b>
<b>Total</b>	<b>24,244,682</b>	<b>2,600,299</b>	<b>1,543,757</b>	<b>28,388,738</b>

**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, the 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).

The following table contains an analysis of the credit risk exposure of total restructured loans and advances and Islamic financing receivables and acceptances and relevant off balance sheet exposures:

2020				
Total restructured portfolio - AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	365,141	807,155	755,997	1,928,293
Allowances for impairment (ECL)	(6,790)	(75,603)	(394,799)	(477,192)
<b>Carrying amount</b>	<b>358,351</b>	<b>731,552</b>	<b>361,198</b>	<b>1,451,101</b>

2019				
Total restructured portfolio - AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	725,946	932,239	829,807	2,487,992
Allowances for impairment (ECL)	(10,363)	(75,769)	(414,489)	(500,621)
<b>Carrying amount</b>	<b>715,583</b>	<b>856,470</b>	<b>415,318</b>	<b>1,987,371</b>

The following table contains an analysis of the credit risk exposure of restructured loans and advances and Islamic financing receivables and acceptances and relevant off balance sheet exposures during the year:

Restructured portfolio during the year AED'000	2020		2019	
	Post- modification	Pre- modification	Post- modification	Pre- modification
<b>Outstanding balance</b>				
Stage 1	3,385	97,472	-	97,389
Stage 2	97,205	1,404	129,075	47,189
Stage 3	807	1,378	2,563	-
<b>Allowances for impairment (ECL)</b>	<b>(14,130)</b>	<b>(3,558)</b>	<b>(13,145)</b>	<b>(4,561)</b>
<b>Carrying amount</b>	<b>87,267</b>	<b>96,696</b>	<b>118,493</b>	<b>140,017</b>

### 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 timeframe of recovery.

**Impact of COVID-19 and macroeconomic variables with respect to ECL**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the world. In addition, the oil prices and financial markets have witnessed unprecedented volatility causing protracted progression and a challenging operating environment. This has resulted in disruption to business and economic activities in the global and domestic economies. The UAE Central bank and fiscal and monetary authorities across the world have announced various support measures to counter the possible adverse implications.

NBF has been closely monitoring the situation and has successfully taken a number of measures ranging from reduced branch working hours to remote working and use of digital solutions to ensure continuity of customer services and precautionary measures to ensure health and safety of all stakeholders. NBF has been proactively managing its liquidity and further strengthened its position to navigate through these uncertain environment with confidence. As at 31 December 2020, NBF's advances to deposits ratio stood at 83.5%, NSFR at 106.6% and LCR at 366.5%.

The Management Risk Committee ('MRC') and Central Credit Committee ('CCC') of the Group ensures governance over all critical decisions and requirements of the IFRS 9 standard and the related guidance and notices issued by the Regulator are complied and monitored with the appropriate involvement of key stakeholders including Risk, Credit, Finance and the Business divisions. These include key technical accounting and risk methodology decisions, management overlays, inputs and assumptions used for the determination of ECL and macro-economic factors consideration.

Execution of principal decisions and results of reviews and monitoring are presented to the Board Audit Committee, Board Risk Committee and the Board, as NBF is committed to upholding the highest corporate governance standards.

NBF has considered the standards and joint guidance with respect to Targeted Economic Support Scheme (TESS) and the Treatment of IFRS 9 Expected Credit Loss Provisions in the UAE in the context of the COVID-19 crisis issued by the UAE Central Bank during March and April 2020 respectively. Pursuant to these standards and the joint guidance, NBF granted repayment holiday to its impacted customers and offer payment deferral relief in the context of COVID-19 under the TESS scheme or otherwise. Management at the time of assessing significant increase in credit risk have factored in the past and expected future performance of the customers benefitting from payment deferrals. NBF segregated its customers benefitting from payment deferrals into two groups as follows:

Group 1 – customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the COVID-19 crisis; and

Group 2 – customers expected to be significantly impacted by the COVID-19 crises and are expected to face substantial deterioration in their creditworthiness triggering a migration to stage 2. In exceptional circumstances, stage 3 migration may have also been triggered where significant disruptions

have threatened the long-term sustainability of the customers' business model causing the business to be permanently impaired.

The principal parameters for the grouping consideration included customers' account conduct, credit worthiness, economic sector, collateral, level of the COVID-19 impact, customers' supply chains and sales markets, severity of industry impacts and implications reflected in the operating performance, where available. NBF has been diligently monitoring its credit risks and the detailed review of all business segment portfolios was undertaken on these lines with the COVID-19 impacts cumulatively assessed and risk-matrixed to adequately protect the Group from any adversarial movements. The impact of the extension of loans and advances and Islamic financing receivables on account of COVID-19 has been assessed and considered in accordance with the requisites of IFRS 9 for modification of the terms of the facilities.

The uncertainties caused by COVID-19 have required NBF to update the inputs and assumptions used for the determination of ECL. NBF has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. Forecast for macroeconomic variables have been modified as well as the assigned probabilities for downside scenario increased to 40% from 30% at 31 December 2019 and reduced the upside scenario to 20% from 30% at 31 December 2019. The Group has considered the potential impacts of the current market volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on observable information.

Markets, however, remain volatile and the impacts remain sensitive to market fluctuations and the Group will continue to monitor and reflect appropriately in ECL calculations. Therefore, actual results may be considerably different to the forecast. Since, the situation is rapidly changing and accordingly any downside scenarios will be reassessed if adverse conditions continue and the Group will continue to reassess its position and the related impact on a regular basis.

With the heightened COVID-19 concerns and the related shocks being experienced throughout the world economies, NBF on an on-going basis reviews prudently the staging and grouping decisions to ensure accurate reflection of the Group's assessment of these aspects at the reporting date.

**Stage-wise analysis of customers benefitting from payment deferrals**

Pursuant to the Joint Guidance on the treatment of IFRS 9 ECL provisions in the UAE in the context of COVID-19 crisis issued by the UAE Central Bank during April 2020, NBF granted repayment holiday to some of its impacted customers. Of these, those related to TESS under standards issued during 2020, deferred principal and accrued interest amounted to AED 1,161.9 million. The bank has availed the assistance under TESS and has offered payment deferral relief to selected customers. The bank has fully settled AED 1,161.9 million on 31 December 2020.

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to loans and advances and Islamic financing receivables of the customers, who have been provided with such benefits, and the related ECL:

<b>31 December 2020</b>				
AED'000	Stage 1	Stage 2	Stage 3	Total
Deferred amount	66,884	21,267	-	<b>88,151</b>
Allowances for impairment (ECL)	(778)	(3,563)	-	<b>(4,341)</b>
<b>Carrying amount</b>	<b>66,106</b>	<b>17,704</b>	<b>-</b>	<b>83,810</b>
<b>Customer Count</b>	<b>53</b>	<b>23</b>	<b>-</b>	<b>76</b>

The following table contains an analysis of the credit risk exposure of loans and advances and Islamic receivables and acceptances and the relevant off-balance sheet exposures and the related ECL of the customers benefiting from payment deferrals. The gross carrying amount of loans and advances and Islamic receivables and acceptances, including accrued interest / profit, and off-balance sheet exposures below represents the Group's maximum credit exposure to customers benefiting from payment deferrals:

<b>2020</b>				
<b>Loans and advances and Islamic financing receivables and acceptances</b>				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	959,967	234,673	-	<b>1,194,640</b>
Allowances for impairment (ECL)	(20,605)	(25,161)	-	<b>(45,766)</b>
<b>Carrying amount</b>	<b>939,362</b>	<b>209,512</b>	<b>-</b>	<b>1,148,874</b>

<b>2019</b>				
<b>Loans and advances and Islamic financing receivables and acceptances</b>				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	1,177,971	116,417	-	<b>1,294,388</b>
Allowances for impairment (ECL)	(17,156)	(9,604)	-	<b>(26,760)</b>
<b>Carrying amount</b>	<b>1,160,815</b>	<b>106,813</b>	<b>-</b>	<b>1,267,628</b>

<b>2020</b>				
<b>Off-balance sheet exposures</b>				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	38,061	1,053	-	<b>39,114</b>
Allowances for impairment (ECL)	(188)	(65)	-	<b>(253)</b>
<b>Carrying amount</b>	<b>37,873</b>	<b>988</b>	<b>-</b>	<b>38,861</b>

<b>2019</b>				
<b>Off-balance sheet exposures</b>				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	66,309	1,711	-	<b>68,020</b>
Allowances for impairment (ECL)	(258)	(15)	-	<b>(273)</b>
<b>Carrying amount</b>	<b>66,051</b>	<b>1,696</b>	<b>-</b>	<b>67,747</b>

**Analysis of customers benefitting from payment deferrals by type, groups and segments, with the related ECL**

The following table contains an analysis of the outstanding balance of loans and advances and Islamic financing receivables and acceptances, including accrued interest / profit, of the customers benefitting from payment deferrals:

2020 AED'000	Corporate and institutional segments			Business banking segment		
	Group 1	Group 2	Total	Group 1	Group 2	Total
Loans and advances and Islamic financing receivables and acceptances	802,340	150,722	953,062	135,445	37,166	172,611
Allowances for impairment (ECL)	(17,369)	(16,536)	(33,905)	(3,038)	(7,635)	(10,673)
<b>Carrying amount</b>	<b>784,971</b>	<b>134,186</b>	<b>919,157</b>	<b>132,407</b>	<b>29,531</b>	<b>161,938</b>
<b>Customer Count</b>			<b>14</b>			<b>28</b>

2020 AED'000	Retail banking		
	Group 1	Group 2	Total
Bills Discounted	-	743	743
Overdrafts	29	-	29
Term loans	26,378	41,817	68,195
Allowances for impairment (ECL)	(295)	(893)	(1,188)
<b>Carrying amount</b>	<b>26,112</b>	<b>41,667</b>	<b>67,779</b>
<b>Customer Count</b>			<b>34</b>

2020 AED'000	Consolidated		
	Group 1	Group 2	Total
Loans and advances and Islamic financing receivables and acceptances	964,193	230,447	1,194,640
Allowances for impairment (ECL)	(20,672)	(25,094)	(45,766)
<b>Carrying amount</b>	<b>943,521</b>	<b>205,353</b>	<b>1,148,874</b>
<b>Customer Count</b>			<b>76</b>

The following table contains an analysis of the related relevant off-balance sheet exposures of the customers benefitting from payment deferrals:

2020 AED'000	Corporate and institutional segments			Business banking segment		
	Group 1	Group 2	Total	Group 1	Group 2	Total
Off-balance sheet exposures	5,344	-	5,344	32,717	783	33,500
Allowances for impairment (ECL)	(4)	-	(4)	(185)	(60)	(245)
<b>Carrying amount</b>	<b>5,340</b>	<b>-</b>	<b>5,340</b>	<b>32,532</b>	<b>723</b>	<b>33,255</b>

2020 AED'000	Retail banking		
	Group 1	Group 2	Total
Off-balance sheet exposures	-	270	270
Allowances for impairment (ECL)	-	(4)	(4)
<b>Carrying amount</b>	<b>-</b>	<b>266</b>	<b>266</b>

2020 AED'000	Consolidated		
	Group 1	Group 2	Total
Off-balance sheet exposures	38,061	1,053	39,114
Allowances for impairment (ECL)	(189)	(64)	(253)
<b>Carrying amount</b>	<b>37,872</b>	<b>989</b>	<b>38,861</b>

**Movement in the gross balance of loans and advances and Islamic financing receivables and acceptances and off-balance sheet exposures of the customers benefitting from payment deferrals**

Loans and advances and Islamic financing receivables and acceptances				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>1,177,971</b>	<b>116,417</b>	-	<b>1,294,388</b>
Transferred from Stage 1	(100,703)	100,703	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / derecognized during the year	(117,301)	17,553	-	(99,748)
<b>Gross carrying amount – 31 December 2020</b>	<b>959,967</b>	<b>234,673</b>	-	<b>1,194,640</b>

Off-balance sheet exposures				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>66,309</b>	<b>1,711</b>	-	<b>68,020</b>
Transferred from Stage 1	(783)	783	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / derecognized during the year	(27,465)	(1,441)	-	(28,906)
<b>Gross carrying amount – 31 December 2020</b>	<b>38,061</b>	<b>1,053</b>	-	<b>39,114</b>

The following table contains the movement in the gross balance of loans and advances and Islamic financing receivables and acceptances of the customers benefitting from payment deferrals by segment:

Corporate and institutional segments				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>949,543</b>	<b>76,351</b>	-	<b>1,025,894</b>
Transferred from Stage 1	(70,891)	70,891	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / derecognized during the year	(76,312)	3,480	-	(72,832)
<b>Gross carrying amount – 31 December 2020</b>	<b>802,340</b>	<b>150,722</b>	-	<b>953,062</b>

Business banking segment				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>196,243</b>	<b>11,802</b>	-	<b>208,045</b>
Transferred from Stage 1	(12,965)	12,965	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / derecognized during the year	(47,578)	12,144	-	(35,434)
<b>Gross carrying amount – 31 December 2020</b>	<b>135,700</b>	<b>36,911</b>	-	<b>172,611</b>

## SECTION 6

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

Retail banking				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>32,185</b>	<b>28,264</b>	-	<b>60,449</b>
Transferred from Stage 1	(16,847)	16,847	-	-
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / derecognized during the year	6,589	1,929	-	<b>8,518</b>
<b>Gross carrying amount – 31 December 2020</b>	<b>21,927</b>	<b>47,040</b>	-	<b>68,967</b>

The following table contains the movement in the related relevant off-balance sheet exposures of the customers benefitting from payment deferrals by segment:

Corporate and institutional segments				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>5,726</b>	-	-	<b>5,726</b>
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	-	-	-	-
Originated / derecognized during the year	(382)	-	-	<b>(382)</b>
<b>Gross carrying amount – 31 December 2020</b>	<b>5,344</b>	-	-	<b>5,344</b>

Business banking segment				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>60,518</b>	<b>1,382</b>	-	<b>61,900</b>
Transferred from Stage 1	(783)	783	-	-
Transferred from Stage 2	-	-	-	-
Originated / derecognized during the year	(27,018)	(1,382)	-	<b>(28,400)</b>
<b>Gross carrying amount – 31 December 2020</b>	<b>32,717</b>	<b>783</b>	-	<b>33,500</b>

Retail banking				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount – 31 December 2019</b>	<b>65</b>	<b>329</b>	-	<b>394</b>
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	-	-	-	-
Originated / derecognized during the year	(65)	(59)	-	<b>(124)</b>
<b>Gross carrying amount – 31 December 2020</b>	-	<b>270</b>	-	<b>270</b>

**Movement in the provision for impairment of loans and advances and Islamic financing receivables and acceptances and off-balance sheet exposures of the customers benefitting from payment deferrals**

Loans and advances and Islamic financing receivables and acceptances				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>ECL allowance - 31 December 2019</b>	<b>17,156</b>	<b>9,604</b>	-	<b>26,760</b>
Transferred from Stage 1	(2,519)	9,451	-	<b>6,932</b>
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / (derecognized) during the year including changes in PDs / LGDs / EADs	5,968	6,106	-	<b>12,074</b>
<b>Net allowance for impairment losses</b>	<b>3,449</b>	<b>15,557</b>	-	<b>19,006</b>
Written-off during the year	-	-	-	-
<b>ECL allowance – 31 December 2020</b>	<b>20,605</b>	<b>25,161</b>	-	<b>45,766</b>

Off-balance sheet exposures				
AED'000	Stage 1	Stage 2	Stage 3	Total
<b>ECL allowance - 31 December 2019</b>	<b>258</b>	<b>15</b>	-	<b>273</b>
Transferred from Stage 1	(30)	61	-	<b>31</b>
Transferred from Stage 2	-	-	-	-
Transferred from Stage 3	-	-	-	-
Originated / (derecognized) during the year including changes in PDs / LGDs / EADs	(40)	(11)	-	<b>(51)</b>
<b>Net allowance for impairment losses</b>	<b>(70)</b>	<b>50</b>	-	<b>(20)</b>
Written-off during the year	-	-	-	-
<b>ECL allowance – 31 December 2020</b>	<b>188</b>	<b>65</b>	-	<b>253</b>

**Sector-wise ECL analysis of Corporate and Institutional banking and Business banking segments' customers benefitting from payment deferrals**

The following table contains the change in ECL by sector of Corporate and Institutional banking and Business banking segments:

AED'000	Corporate and institutional segments		
	31-Dec-20	31-Dec-19	Change
Trade	17,052	10,128	6,924
Construction	-	-	-
Manufacturing	271	547	(276)
Service industries	16,552	8,524	8,028
Real estate	-	-	-
Individuals	34	17	17
<b>Total ECL</b>	<b>33,909</b>	<b>19,216</b>	<b>14,693</b>

AED'000	Business banking segments		
	31-Dec-20	31-Dec-19	Change
Trade	1,943	2,050	(107)
Construction	945	1,526	(581)
Manufacturing	1,746	2,520	(774)
Service industries	2,887	101	2,786
Real estate	3,397	252	3,145
<b>Total ECL</b>	<b>10,918</b>	<b>6,449</b>	<b>4,469</b>

#### ECL analysis by product of Retail banking customers benefitting from payment deferrals

The following tables contains the change in ECL by product of Retail banking:

AED'000	31-Dec-20	31-Dec-19	Change
Bills Discounted	29	-	29
Overdrafts	1	2	(1)
Term loans	1,158	1,360	(202)
Off-balance sheet	4	6	(2)
<b>Total ECL</b>	<b>1,192</b>	<b>1,368</b>	<b>(176)</b>

#### (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 13.1% (2019: 16.0%) 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:

	ELAR		LSRR	
	2020	2019	2020	2019
<b>12 month - Average</b>	20.21%	19.99%	83.14%	88.86%
<b>12 month - Highest</b>	23.53%	21.67%	89.43%	91.74%
<b>12 month - Lowest</b>	16.04%	19.39%	76.78%	85.87%

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 2020, LCR and NSFR stood at **366.5%** (2019: 440%) and **106.6%** (2019: 106%) 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 (current and savings accounts) from customers are expected to maintain a stable balance and historically have been long-term in nature; 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.

2020 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Cash and balances with the UAE Central Bank	4,728,531	500,000	-	-	-	-	<b>5,228,531</b>
Due from banks and financial institutions	1,145,448	261,370	114,209	128,668	-	-	<b>1,649,695</b>
Investments and Islamic instruments	95,661	217,017	433,267	449,446	3,784,064	207,589	<b>5,187,044</b>
Loans and advances and Islamic financing receivables	5,710,586	4,716,525	2,398,859	1,624,929	7,037,483	3,355,829	<b>24,844,211</b>
Property and equipment and capital work-in-progress	-	-	-	-	-	368,378	<b>368,378</b>
Other assets	284,388	1,417,895	814,494	75,546	1,782	-	<b>2,594,105</b>
<b>Total assets</b>	<b>11,964,614</b>	<b>7,112,807</b>	<b>3,760,829</b>	<b>2,278,589</b>	<b>10,823,329</b>	<b>3,931,796</b>	<b>39,871,964</b>
Due to banks	380,999	122,418	249,262	-	609,899	-	<b>1,362,578</b>
Customer deposits and Islamic customer deposits	14,976,070	4,625,490	4,353,892	4,464,790	1,335,859	10,000	<b>29,766,101</b>
Term borrowings	-	367,300	-	-	73,460	-	<b>440,760</b>
Other liabilities	284,388	1,454,056	814,494	75,546	1,782	-	<b>2,630,266</b>
Total shareholders' equity	-	-	-	-	-	5,672,259	<b>5,672,259</b>
<b>Total liabilities and equity</b>	<b>15,641,457</b>	<b>6,569,264</b>	<b>5,417,648</b>	<b>4,540,336</b>	<b>2,021,000</b>	<b>5,682,259</b>	<b>39,871,964</b>
<b>On-Balance Sheet Gap</b>	<b>(3,676,843)</b>	<b>543,543</b>	<b>(1,656,819)</b>	<b>(2,261,747)</b>	<b>8,802,329</b>	<b>(1,750,463)</b>	<b>-</b>
<b>Cumulative Gap</b>	<b>(3,676,843)</b>	<b>(3,133,300)</b>	<b>(4,790,119)</b>	<b>(7,051,866)</b>	<b>1,750,463</b>	<b>-</b>	<b>-</b>
<b>2019</b>							
Total Assets	12,746,289	8,400,058	4,811,322	3,649,950	8,921,128	4,276,510	42,805,257
Total liabilities and equity	15,350,865	8,420,545	4,953,659	5,790,276	1,929,358	6,360,554	42,805,257
On-Balance Sheet Gap	(2,604,576)	(20,487)	(142,337)	(2,140,326)	6,991,770	(2,084,044)	-
Cumulative Gap	(2,604,576)	(2,625,063)	(2,767,400)	(4,907,726)	2,084,044	-	-

## SECTION 6

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

The following table 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.

2020 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Guarantees	5,655,332	-	-	-	-	-	5,655,332
Letters of credit	87,581	990,227	326,444	71,207	1,099	-	1,476,558
Forward foreign exchange contracts	8,803,189	2,360,618	1,384,950	826,352	-	-	13,375,109
Currency options	18,699	325,049	249,431	1,111,265	7,195,630	-	8,900,074
Interest rate derivatives	750	-	284,613	456,700	4,780,451	1,959,546	7,482,060
Commodity derivatives	90,923	38,311	13,734	1,179	-	-	144,147
<b>Total</b>	<b>14,656,474</b>	<b>3,714,205</b>	<b>2,259,172</b>	<b>2,466,703</b>	<b>11,977,180</b>	<b>1,959,546</b>	<b>37,033,280</b>

2019 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Guarantees	6,076,169	-	-	-	-	-	6,076,169
Letters of credit	116,017	1,127,349	591,841	328,119	825	-	2,164,151
Forward foreign exchange contracts	5,521,205	3,083,989	1,366,971	2,010,222	1,170,860	-	13,153,247
Currency options	562,872	1,223,084	2,311,994	3,196,600	5,320,159	-	12,614,709
Interest rate derivatives	-	14,850	78,295	10,212	8,227,591	1,397,894	9,728,842
Commodity derivatives	91,154	156,060	-	-	-	-	247,214
<b>Total</b>	<b>12,367,417</b>	<b>5,605,332</b>	<b>4,349,101</b>	<b>5,545,153</b>	<b>14,719,435</b>	<b>1,397,894</b>	<b>43,984,332</b>

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

Derivatives AED'000	2020				2019			
	Notional	Positive fair value	Negative fair value	Net	Notional	Positive fair value	Negative fair value	Net
Forward foreign exchange contracts	13,375,109	56,538	42,739	13,799	13,153,247	36,235	38,377	(2,142)
Currency options	8,900,074	42,875	40,247	2,628	12,614,709	19,325	16,117	3,208
Interest rate derivatives	7,482,060	197,462	200,965	(3,503)	9,728,842	167,795	164,687	3,108
Commodity derivatives	144,147	12,194	11,742	452	247,214	10,704	9,820	884
<b>Total</b>	<b>29,901,390</b>	<b>309,069</b>	<b>295,693</b>	<b>13,376</b>	<b>35,744,012</b>	<b>234,059</b>	<b>229,001</b>	<b>5,058</b>

### Liquidity analysis of financial liabilities by remaining contractual maturities

The following table summarizes the maturity profile of the Group's financial liabilities as at 31 December 2020 based on contractual undiscounted repayment obligations. However, the Group expects that substantial repayment requests will not occur on the earliest date and the amounts set out below do not represent expected cash flows.

2020 AED'000	Carrying amount	Gross nominal outflows	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
<b>Financial liabilities</b>								
Due to banks	1,362,578	(1,386,997)	(381,456)	(125,793)	(255,359)	(4,313)	(620,076)	-
Customer deposits and Islamic customer deposits	29,766,101	(30,009,959)	(15,032,100)	(4,662,773)	(4,434,140)	(4,522,480)	(1,348,068)	(10,398)
Term borrowings	440,760	(445,140)	-	(370,987)	(175)	(347)	(73,631)	-
Other liabilities	2,630,266	(2,630,266)	(284,388)	(1,454,056)	(814,494)	(75,546)	(1,782)	-
<b>Total</b>	<b>34,199,705</b>	<b>(34,472,362)</b>	<b>(15,697,944)</b>	<b>(6,613,609)</b>	<b>(5,504,168)</b>	<b>(4,602,686)</b>	<b>(2,043,557)</b>	<b>(10,398)</b>

**(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 is escalated to the Board with management recommendations for decision making.

The table below shows the impact of decline in fair value of investments by 10% on net income and regulatory capital and equity for 2020 and 2019:

Investments classified as FVTPL	Assumed level of change %	Impact on net income and regulatory capital 2020 AED'000	Impact on net income and regulatory capital 2019 AED'000
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Reference benchmarks:

Fair value of managed funds	10%	205	4,696
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Investments classified as FVOCI	Assumed level of change %	Impact on equity 2020 AED'000	Impact on equity 2019 AED'000
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Reference benchmarks:

Quoted debt securities / Islamic Sukuks	10%	305,592	212,577
Other investments	10%	95,852	60,611

**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
<b>Open position</b>			
<b>2020 (AED'000)</b>	<b>719,207</b>	<b>7,729</b>	<b>(1,245)</b>
<b>2019 (AED'000)</b>	<b>174,304</b>	<b>(1,722)</b>	<b>8,446</b>
Assumed change in exchange rates	5%	5%	5%
<b>Impact on exchange income from increase in exchange rates:</b>			
<b>2020 (AED'000)</b>	<b>35,960</b>	<b>386</b>	<b>(62)</b>
<b>2019 (AED'000)</b>	<b>8,715</b>	<b>(86)</b>	<b>422</b>
<b>Impact on exchange income from decrease in exchange rates:</b>			
<b>2020 (AED'000)</b>	<b>(35,960)</b>	<b>(386)</b>	<b>62</b>
<b>2019 (AED'000)</b>	<b>(8,715)</b>	<b>86</b>	<b>(422)</b>

At 31 December 2020, the impact on exchange income due to change in exchange rate by 5% is  $\pm 29.03\%$  (2019:  $\pm 5.99\%$ ). Excluding the impact of US\$ open position, the impact is  $\pm 0.26\%$  (2019:  $\pm 0.22\%$ ).

**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  $5.8\%$  (2019:  $2.47\%$ ) 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 consolidated statement of financial position, is as follows:

Currency	AED	USD	EUR	Others	Total
Assumed change in interest / profit rates	±100 bps				

**Impact on net interest income and net income from Islamic financing and investment activities from increase in interest / profit rates**

<b>2020 (AED'000)</b>	<b>115,619</b>	<b>17,083</b>	<b>64</b>	<b>(7,715)</b>	<b>125,051</b>
<b>2019 (AED'000)</b>	<b>93,368</b>	<b>17,676</b>	<b>376</b>	<b>(5,949)</b>	<b>105,471</b>

**Impact on net interest income and net income from Islamic financing and investment activities from decrease in interest / profit rates**

<b>2020 (AED'000)</b>	<b>(97,075)</b>	<b>(18,684)</b>	<b>(64)</b>	<b>8,039</b>	<b>(107,784)</b>
<b>2019 (AED'000)</b>	<b>(93,368)</b>	<b>(17,676)</b>	<b>(358)</b>	<b>5,931</b>	<b>(105,471)</b>

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	2020		2019	
	Upward shift	Downward shift	Upward shift	Downward shift
25	3.29%	-3.29%	2.29%	-2.29%
50	6.59%	-6.20%	4.58%	-4.58%
100	13.18%	-11.36%	9.15%	-9.15%

**Impact on regulatory capital**

bps	2020		2019	
	Upward shift	Downward shift	Upward shift	Downward shift
25	0.52%	-0.52%	0.43%	-0.43%
50	1.04%	-0.97%	0.85%	-0.85%
100	2.07%	-1.79%	1.71%	-1.71%

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 Business Review Committee and MRC has the overall responsibility for managing pricing policy.

## SECTION 6

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:

2020 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 to 5 years	Over 5 years	Non-interest bearing items	Total
Cash and balances with the UAE Central Bank	3,100,000	500,000	-	-	-	-	1,628,531	5,228,531
Due from banks and financial institutions	453,240	263,803	112,858	125,140	-	-	694,654	1,649,695
Investments and Islamic instruments	472,845	763,984	355,973	364,670	2,811,010	292,680	125,882	5,187,044
Loans and advances and Islamic financing receivables	10,518,000	9,407,438	2,212,133	629,795	1,157,928	411,389	507,528	24,844,211
Other assets	-	-	-	-	-	-	2,275,238	2,275,238
<b>Total financial assets</b>	<b>14,544,085</b>	<b>10,935,225</b>	<b>2,680,964</b>	<b>1,119,605</b>	<b>3,968,938</b>	<b>704,069</b>	<b>5,231,833</b>	<b>39,184,719</b>
Due to banks	359,519	732,317	249,262	-	-	-	21,480	1,362,578
Customer deposits and Islamic customer deposits	3,419,004	4,815,831	4,134,882	4,596,920	1,335,854	10,000	11,453,610	29,766,101
Term borrowings	-	440,760	-	-	-	-	-	440,760
Other liabilities	-	-	-	-	-	-	2,414,201	2,414,201
<b>Total financial liabilities</b>	<b>3,778,523</b>	<b>5,988,908</b>	<b>4,384,144</b>	<b>4,596,920</b>	<b>1,335,854</b>	<b>10,000</b>	<b>13,889,291</b>	<b>33,983,640</b>

### Interest rate sensitivity gap

On-balance sheet	10,765,562	4,946,317	(1,703,180)	(3,477,315)	2,633,084	694,069	(8,657,458)
Off-balance sheet	73,460	143,247	73,460	(112,026)	(178,141)	-	-
<b>Cumulative</b>	<b>10,839,022</b>	<b>15,928,586</b>	<b>14,298,866</b>	<b>10,709,525</b>	<b>13,164,468</b>	<b>13,858,537</b>	<b>5,201,079</b>

### 2019

<b>Cumulative interest rate sensitivity gap</b>	<b>7,502,678</b>	<b>12,536,578</b>	<b>12,724,972</b>	<b>9,845,445</b>	<b>9,769,477</b>	<b>10,396,727</b>	<b>5,945,192</b>
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### Interest rate yields

The average earning on placements and balances with banks was 1.21% (2019: 2.41%), on loans and advances and Islamic financing receivables was 4.62% (2019: 5.86%) and on the investment portfolio was 2.03% (2019: 2.75%). The average cost of customer deposits and Islamic customer deposits was 1.49% (2019: 2.30%) and of due to banks and term borrowings was 1.59% (2019: 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:

- 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');
- 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
- 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 following table shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

### Hedging instrument

2020 AED'000	Assets	Liabilities	Notional
<b>Derivatives held as fair value hedges</b>			
Interest rate swaps	-	10,989	216,707
<b>Total derivative financial instruments</b>	<b>-</b>	<b>10,989</b>	<b>216,707</b>

2019 AED'000	Assets	Liabilities	Notional
<b>Derivatives held as fair value hedges</b>			
Interest rate swaps	-	7,703	257,110
<b>Total derivative financial instruments</b>	<b>-</b>	<b>7,703</b>	<b>257,110</b>

The carrying value of investments (hedged item) is **AED 238.7 million** (2019: 270.2 million) and the accumulated amount of fair value adjustments to investments (hedged item) is **AED 11.0 million** (2019: 7.7 million). The gains / losses attributable to the hedged risk for investments amounted to **AED 11.0 million** (2019: 7.7 million) and on the interest rate swaps (hedging instrument) amounted to **AED 11.0 million** (2019: 7.7 million). All the hedges were fully effective for 2020 and 2019.

The following table contains an analysis of the hedging instrument on the basis of their earliest possible contractual maturity and / or expected date of settlement:

### Hedging instrument

2020 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Interest rate swaps	-	-	-	38,566	178,141	-	216,707
	-	-	-	38,566	178,141	-	216,707

### Hedging instrument

2019 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Interest rate swaps	-	-	40,403	-	216,707	-	257,110
	-	-	40,403	-	216,707	-	257,110

### (f) IBOR Reforms

#### Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Group has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the timing and the methods of transition. The Group anticipates that IBOR reform will have operational, risk management and accounting impacts across all of its business lines. The Group established a cross-functional IBOR Project Working Committee (referred to as 'IBOR Committee') to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans and advances and Islamic financing facilities and Investments in Floating Rate Notes (FRN) and liabilities have reference to IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage

communication about IBOR reform with counterparties. The IBOR Committee reports to ALCO regularly and collaborates with other business functions as needed. It provides periodic reports to ALCO and Treasury to support management of interest rate risk, and to identify operational risks arising from IBOR reform.

#### Financial assets

The Group's IBOR exposures on floating-rate loans and advances and Islamic financing facilities and Investments in FRN to customers are covered in the following table:

Currency	2020 AED'000	2019 AED'000
USD	2,924,475	3,425,196
EUR	5,853	7,853
JPY	-	5,628
<b>Total</b>	<b>2,930,328</b>	<b>3,438,677</b>

The IBOR Committee is in the process of establishing policies for amending the interbank offered rates on its existing floating-rate loan portfolio indexed to IBORs that will be replaced as part of the IBOR reform. The Group expects that retail products will be amended in a uniform way. However, the Group expects to participate in bilateral negotiations with the counterparties in its bespoke products, such as loans and advances issued to corporates. The Group expects to begin amending the contractual terms of its existing floating-rate assets in the year 2020; however, the exact timing will vary depending on the extent to which standardized language can be applied across certain loan types and the extent of bilateral negotiations between the Group and loan counterparties.

#### Financial liabilities

The Group has floating-rate liabilities indexed to IBORs of AED 1,050.7 million denominated in USD (2019: AED 293.8 million). The IBOR Committee and the Group's treasury team will initiate discussions with the counterparties of our financial liabilities to amend the contractual terms in preparation for the IBOR reform.

The table below shows the Bank's exposure as at 31 December 2020 to significant IBORs subject to reform that have yet to transition to RFRs.

31 December 2020	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivative nominal amount
LIBOR 1 month	597,380	-	166,318
LIBOR 3 month	2,168,301	867,010	2,780,693
LIBOR 6 month	81,804	-	457,465
LIBOR 12 month	82,843	183,650	-
<b>Total</b>	<b>2,930,328</b>	<b>1,050,660</b>	<b>3,404,476</b>

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform as financial instruments transition to RFRs, analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure, the bank manages through hedging relationships:

31 December 2020	Nominal amount	Average Maturity (Year)
<b>Interest rate swap</b>		
LIBOR 1 month	-	-
LIBOR 3 month	91,825	1.9
LIBOR 6 month	124,882	1.9
<b>Total</b>	<b>216,707</b>	<b>1.9</b>

#### (g) 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.

**(h) 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.

**Minimum transitional arrangements as per UAE Central Bank**

Capital element	Basel III 2020	Basel III 2019
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	2.5%	2.5%

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 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 Compliance – 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 risk weighted assets (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)

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

- b. Tier 2 capital

It includes collective impairment provision and subordinated facilities. Collective impairment provision, including Impairment Reserve - General, 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. CBUAE 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.

## SECTION 6

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

### 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	2020 AED'000	2019 AED'000
<b>CET1 capital</b>		
Share capital	1,914,762	1,850,012
Statutory reserve	936,053	936,053
Special reserve	561,899	561,899
Retained earnings	597,943	1,137,560
IFRS 9 transitional arrangement – ECL (stage 1 and 2) impact	341,918	-
Accumulated other comprehensive income	41,662	14,134
<b>CET1 total</b>	<b>4,394,237</b>	<b>4,499,658</b>
<b>Additional tier 1 (AT1) capital</b>		
Tier 1 capital securities (note 19)	1,285,550	1,285,550
<b>Total tier 1</b>	<b>5,679,787</b>	<b>5,785,208</b>
<b>Tier 2 capital</b>		
Collective impairment provision	355,579	397,349
<b>Total tier 2</b>	<b>355,579</b>	<b>397,349</b>
<b>Total capital base (a)</b>	<b>6,035,366</b>	<b>6,182,557</b>

Risk weighted assets	2020 Risk-weighted equivalent AED'000	2019 Risk-weighted equivalent AED'000
Credit risk	28,446,320	31,787,910
Market risk	53,159	62,344
Operational risk	2,962,984	2,946,613
<b>Total risk weighted assets (b)</b>	<b>31,462,463</b>	<b>34,796,867</b>
<b>Capital adequacy ratio (a) / (b) - %</b>	<b>19.2</b>	<b>17.8</b>
<b>Tier 1 ratio - %</b>	<b>18.1</b>	<b>16.6</b>
<b>Common equity tier 1 ratio (CET 1) - %</b>	<b>14.0</b>	<b>12.9</b>

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 2020 was 16.6% (2019: 15.3%).

#### 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:

#### 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%.

## SECTION 6

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

### Credit risk and risk weights

2020 AED'000	On & off balance sheet Gross outstanding	Credit risk mitigation (CRM)			Risk-weighted assets
		Exposure before CRM	CRM	After CRM	
Claims on sovereigns	6,581,740	6,581,740	-	6,581,740	42,009
Claims on PSEs	73,888	73,888	-	73,888	149
Claims on banks	4,454,093	4,454,093	-	4,406,788	1,588,110
Claims on corporates and GREs	29,146,545	41,086,572	4,178,700	26,011,030	20,292,244
Regulatory retail exposures	1,056,270	1,217,878	41,134	1,053,869	766,343
Residential retail portfolio	2,111,870	2,111,870	-	2,111,870	1,282,238
Commercial real estate	2,120,073	2,120,073	-	2,120,073	2,120,073
Past due exposures	3,034,317	957,507	36,125	993,632	957,507
Higher-risk categories	2,518	2,518	-	2,518	3,776
Other exposures	1,909,899	1,909,899	-	1,909,899	1,393,871
<b>Total</b>	<b>50,491,213</b>	<b>60,516,038</b>	<b>4,255,959</b>	<b>45,265,307</b>	<b>28,446,320</b>

2019 AED'000	On & off balance sheet Gross outstanding	Credit risk mitigation (CRM)			Risk-weighted assets
		Exposure before CRM	CRM	After CRM	
Claims on sovereigns	7,852,974	7,852,974	-	7,852,974	51,245
Claims on PSEs	130,024	130,024	-	130,024	14,770
Claims on banks	4,170,262	4,170,262	3,852	4,136,776	1,406,113
Claims on corporates and GREs	32,493,265	46,098,660	4,153,809	29,007,481	24,248,693
Regulatory retail exposures	1,105,258	1,211,967	105,170	1,105,516	777,033
Residential retail portfolio	1,888,793	1,888,793	3,992	1,888,793	1,260,340
Commercial real estate	2,049,672	2,049,672	-	2,049,672	2,049,672
Past due exposures	2,077,962	649,884	13,281	639,089	790,704
Higher-risk categories	3,687	3,687	-	3,687	5,531
Other exposures	1,573,627	1,573,627	-	1,573,627	1,183,809
<b>Total</b>	<b>53,345,524</b>	<b>65,629,550</b>	<b>4,280,104</b>	<b>48,387,639</b>	<b>31,787,910</b>

On and off balance sheet exposures include unutilized credit limits which are revocable at the discretion of the Bank amounting to AED 12,102 million (2019: AED 13,712 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.

**Market risk and risk weights**

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

	2020 AED'000	2019 AED'000
Interest rate risk		
- Specific interest rate risk	1,147	485
- General interest rate risk	-	-
Equity position risk		
- General equity exposure risk	-	4,592
Foreign exchange risk	1,732	1,469
Option risk	2,703	-
<b>Total market risk capital charge</b>	<b>5,582</b>	<b>6,546</b>
<b>Market risk – risk weighted assets</b>	<b>53,159</b>	<b>62,344</b>

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.

**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 2020 and 2019 are as follows:

2020 AED'000	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Allowances for impairment (ECL)	Carrying amount
<b>Financial assets</b>					
Cash and balances with the UAE Central Bank	-	-	5,228,531	-	5,228,531
Due from banks and financial institutions	-	-	1,649,695	-	1,649,695
Investments and Islamic instruments	2,051	4,014,435	1,175,251	(4,693)	5,187,044
Loans and advances and Islamic financing receivables	-	-	27,058,018	(2,213,807)	24,844,211
Other assets	-	-	2,275,238	-	2,275,238
<b>Total financial assets</b>	<b>2,051</b>	<b>4,014,435</b>	<b>37,386,733</b>	<b>(2,218,500)</b>	<b>39,184,719</b>
<b>Financial liabilities</b>					
Due to banks	-	-	1,362,578	-	1,362,578
Customer deposits and Islamic customer deposits	-	-	29,766,101	-	29,766,101
Term borrowings	-	-	440,760	-	440,760
Other liabilities	-	-	2,292,232	121,969	2,414,201
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>33,861,671</b>	<b>121,969</b>	<b>33,983,640</b>

2019 AED'000	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Allowances for impairment (ECL)	Carrying amount
<b>Financial assets</b>					
Cash and balances with the UAE Central Bank	-	-	6,864,369	-	6,864,369
Due from banks and financial institutions	-	-	2,354,627	(8,907)	2,345,720
Investments and Islamic instruments	46,962	2,731,884	590,517	(2,173)	3,367,190
Loans and advances and Islamic financing receivables	-	-	28,388,738	(1,293,240)	27,095,498
Other assets	-	-	2,525,077	-	2,525,077
<b>Total financial assets</b>	<b>46,962</b>	<b>2,731,884</b>	<b>40,723,328</b>	<b>(1,304,320)</b>	<b>42,197,854</b>
<b>Financial liabilities</b>					
Due to banks	-	-	1,346,810	-	1,346,810
Customer deposits and Islamic customer deposits	-	-	31,949,730	-	31,949,730
Term borrowings	-	-	293,840	-	293,840
Other liabilities	-	-	2,579,155	83,127	2,662,282
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>36,169,535</b>	<b>83,127</b>	<b>36,252,662</b>

6.2 Fair value measurement – fair value hierarchy:

2020 AED'000	Notional	Level 1	Level 2	Level 3
<b>Investments and Islamic instruments</b>				
Debt securities / Islamic sukuku	-	3,055,916	-	-
Other investments	-	958,052	2,518	-
Forward foreign exchange contracts	13,375,109	-	13,799	-
Currency options	8,900,074	-	2,628	-
Interest rate derivatives	7,482,060	-	(3,503)	-
Commodity derivatives	144,147	-	452	-
2019 AED'000	Notional	Level 1	Level 2	Level 3
<b>Investments and Islamic instruments</b>				
Debt securities / Islamic sukuku	-	2,125,774	-	-
Other investments	-	649,384	3,688	-
Forward foreign exchange contracts	13,153,247	-	(2,142)	-
Currency options	12,614,709	-	3,208	-
Interest rate derivatives	9,728,842	-	3,108	-
Commodity derivatives	247,214	-	884	-

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**

AED'000	2020	2019
Cash on hand	236,437	271,489
Certificates of deposit (CDs) with the UAE Central Bank	3,600,000	4,275,000
Other balances with the UAE Central Bank (note 7.1)	1,392,094	2,317,880
	<b>5,228,531</b>	<b>6,864,369</b>

7.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 1,398.5 million (2019: AED 1,556.7 million).

**8. Due from banks and financial institutions**

8.1 By type

AED'000	2020	2019
Placements	355,274	537,205
Current accounts / term deposits	706,098	1,065,530
Bills discounted	599,651	751,892
	<b>1,661,023</b>	<b>2,354,627</b>
Less: Allowances for impairment (ECL) (note 12.1)	(11,328)	(8,907)
	<b>1,649,695</b>	<b>2,345,720</b>

As at 31 December 2020, current accounts / term deposits include cash collateral of AED 211.1 million (2019: AED 164.0 million) in respect of negative fair value of derivatives, in accordance with the agreements with the interbank counterparties.

## 8.2 By geographical area

AED'000	2020	2019
UAE	550,918	660,631
GCC	163,287	412,696
Europe	506,784	179,401
Americas	178,826	777,390
Others	261,208	324,509
	<b>1,661,023</b>	<b>2,354,627</b>
Less: Allowances for impairment (ECL) (note 12.1)	(11,328)	(8,907)
	<b>1,649,695</b>	<b>2,345,720</b>

## 8.3 By currency

AED'000	2020	2019
AED	312,210	504,176
USD	987,515	1,700,496
EUR	116,379	49,323
GBP	8,093	5,323
XAU	17,715	12,710
Others	219,111	82,599
	<b>1,661,023</b>	<b>2,354,627</b>
Less: Allowances for impairment (ECL) (note 12.1)	(11,328)	(8,907)
	<b>1,649,695</b>	<b>2,345,720</b>

## 8.4 Based on external credit ratings:

AED'000	2020	2019
AA	146	636
AA-	82,498	66,894
A+	92,674	203,939
A	102,590	397,038
A-	440,660	555,839
BBB+	402,692	582,640
BBB	74,574	16,124
BBB- and below	465,189	531,517
	<b>1,661,023</b>	<b>2,354,627</b>
Less: Allowances for impairment (ECL) (note 12.1)	(11,328)	(8,907)
	<b>1,649,695</b>	<b>2,345,720</b>

8.5 Stage-wise analysis

The following table contains an analysis of the credit risk exposure of due from banks and financial institutions. The gross carrying amount of due from banks and financial institutions, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

2020 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	1,652,034	10,506	-	1,662,540
Allowances for impairment (ECL) (note 12.1)	(10,702)	(626)	-	(11,328)
<b>Carrying amount</b>	<b>1,641,332</b>	<b>9,880</b>	<b>-</b>	<b>1,651,212</b>

2019 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	2,324,967	33,434	-	2,358,401
Allowances for impairment (ECL) (note 12.1)	(7,930)	(977)	-	(8,907)
<b>Carrying amount</b>	<b>2,317,037</b>	<b>32,457</b>	<b>-</b>	<b>2,349,494</b>

Majority of due from banks and financial institutions 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.

9. Investments and Islamic instruments

AED'000	2020	2019
<b>Investments at fair value through profit or loss (FVTPL) (note 9.1)</b>	<b>2,051</b>	<b>46,962</b>
<b>Investments at fair value through other comprehensive income (FVOCI)</b>		
Debt securities / Islamic sukuks (note 9.2)	3,055,916	2,125,774
Other investments / Islamic instruments (note 9.3)	958,519	606,110
	<b>4,014,435</b>	<b>2,731,884</b>
<b>Investments measured at amortised cost</b>		
Debt securities / Islamic sukuks (note 9.2)	1,175,251	590,517
	<b>5,191,737</b>	<b>3,369,363</b>
Less: Allowances for impairment (ECL) (note 12.1)	(4,693)	(2,173)
	<b>5,187,044</b>	<b>3,367,190</b>

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 4,231.2 million (2019: AED 2,716.3 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 924.1 million (2019: AED 970.2 million).

Debt securities include Islamic sukuks amounting to AED 692.2 million (2019: AED 646.6 million).

9.3 Other investments include various funds whose fair values are based on the net asset values provided by the fund managers, amounting to AED 820.9 million (2019: AED 605.6 million) and additional tier 1 perpetual bonds of AED 137.1 million (2019: nil). No shares were purchased by the Bank, during the year (2019: nil).

9.4 The dispersion of the investment portfolio is as follows:

AED'000	2020	2019
Government	2,312,221	1,000,591
Banks and financial institutions	1,650,447	1,428,229
Others	1,229,069	940,543
	<b>5,191,737</b>	<b>3,369,363</b>
Less: Allowances for impairment (ECL) (note 12.1)	(4,693)	(2,173)
	<b>5,187,044</b>	<b>3,367,190</b>

## 9.5 By geographical area:

AED'000	2020	2019
UAE	1,597,980	682,881
GCC	977,473	307,749
Europe	1,160,935	824,719
Americas	712,609	721,199
Others	742,740	832,815
	<b>5,191,737</b>	<b>3,369,363</b>
Less: Allowances for impairment (ECL) (note 12.1)	(4,693)	(2,173)
	<b>5,187,044</b>	<b>3,367,190</b>

## 9.6 By currency:

AED'000	2020	2019
AED	467	467
USD	5,078,861	3,313,831
EUR	21,338	40,209
GBP	86,680	-
JPY	4,391	14,856
	<b>5,191,737</b>	<b>3,369,363</b>
Less: Allowances for impairment (ECL) (note 12.1)	(4,693)	(2,173)
	<b>5,187,044</b>	<b>3,367,190</b>

## 9.7 Based on external credit rating:

2020 AED'000	Debt securities / Islamic sukus	Other investments	Total
AAA	-	210,816	210,816
AA	1,013,643	-	1,013,643
AA-	884,809	151,206	1,036,015
A+	129,944	-	129,944
A	1,051,973	129,379	1,181,352
A-	876,257	260,824	1,137,081
BBB+	111,855	-	111,855
BBB- and below	162,686	208,345	371,031
Less: Allowances for impairment (ECL) (note 12.1)	(4,104)	(589)	(4,693)
	<b>4,227,063</b>	<b>959,981</b>	<b>5,187,044</b>

2019 AED'000	Debt securities / Islamic sukus	Other investments	Total
AAA	147,240	98,282	245,522
AA	291,153	96,262	387,415
AA-	707,567	121,602	829,169
A+	224,833	-	224,833
A	300,089	121,260	421,349
A-	537,325	102,773	640,098
BBB+	44,465	-	44,465
BBB- and below	463,619	112,893	576,512
Less: Allowances for impairment (ECL) (note 12.1)	(1,620)	(553)	(2,173)
	<b>2,714,671</b>	<b>652,519</b>	<b>3,367,190</b>

9.8 Debt investments and Islamic instruments stage-wise analysis:

The following table contains an analysis of the credit risk exposure of debt investments and Islamic instruments. The gross carrying amount of debt investments and Islamic instruments, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

2020 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	4,983,392	-	-	4,983,392
Allowances for impairment (ECL) (note 12.1)	(4,693)	-	-	(4,693)
<b>Carrying amount</b>	<b>4,978,699</b>	-	-	<b>4,978,699</b>

2019 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	3,256,470	-	-	3,256,470
Allowances for impairment (ECL) (note 12.1)	(2,173)	-	-	(2,173)
<b>Carrying amount</b>	<b>3,254,297</b>	-	-	<b>3,254,297</b>

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.

10. Loans and advances and Islamic financing receivables

10.1 By type:

AED'000	2020	2019
Overdrafts	2,310,396	2,437,108
Term loans	20,117,170	20,153,451
Loans against trust receipts	2,747,245	3,385,267
Bills discounted	1,709,239	2,165,752
Bills drawn under letters of credit	173,968	247,160
<b>Gross loans and advances and Islamic financing receivables</b>	<b>27,058,018</b>	<b>28,388,738</b>
Allowances for impairment losses (ECL) (note 12.1)	(2,213,807)	(1,293,240)
<b>Net loans and advances and Islamic financing receivables</b>	<b>24,844,211</b>	<b>27,095,498</b>

10.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to **AED 3,096.3 million** (2019: AED 3,493.9 million) provided through a Shari'a compliant Islamic window, NBF Islamic.

10.3 Loans and advances and Islamic financing receivables and acceptances stage-wise analysis

The following table contains an analysis of the credit risk exposure of loans and advances and Islamic receivables and acceptances. The gross carrying amount of loans and advances and Islamic receivables and acceptances, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

2020 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	22,781,653	3,360,911	3,034,312	29,176,876
Allowances for impairment (ECL) (note 12.1)	(265,072)	(563,113)	(1,385,622)	(2,213,807)
<b>Carrying amount</b>	<b>22,516,581</b>	<b>2,797,798</b>	<b>1,648,690</b>	<b>26,963,069</b>

## SECTION 6

10. Loans and advances and Islamic financing receivables (continued)

10.3 Loans and advances and Islamic financing receivables and acceptances stage-wise analysis (continued)

2019 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	26,319,746	2,704,403	1,761,170	<b>30,785,319</b>
Allowances for impairment (ECL) (note 12.1)	(220,482)	(271,207)	(801,551)	<b>(1,293,240)</b>
<b>Carrying amount</b>	<b>26,099,264</b>	<b>2,433,196</b>	<b>959,619</b>	<b>29,492,079</b>

10.4 Movement in the gross balance of loans and advances and Islamic financing receivables and acceptances:

Outstanding Balance AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount - 31 December 2019</b>	<b>26,319,746</b>	<b>2,704,403</b>	<b>1,761,170</b>	<b>30,785,319</b>
Transferred from Stage 1	(1,417,399)	1,115,557	301,842	-
Transferred from Stage 2	71,383	(969,169)	897,786	-
Transferred from Stage 3	-	5,758	(5,758)	-
Originated / (derecognized) during the year	(2,192,077)	504,362	484,375	<b>(1,203,340)</b>
Written-off during the year	-	-	(405,103)	<b>(405,103)</b>
<b>Gross carrying amount - 31 December 2020</b>	<b>22,781,653</b>	<b>3,360,911</b>	<b>3,034,312</b>	<b>29,176,876</b>

Outstanding Balance AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount - 31 December 2018</b>	<b>24,992,897</b>	<b>3,182,337</b>	<b>1,538,965</b>	<b>29,714,199</b>
Transferred from Stage 1	(1,176,577)	1,051,956	124,621	-
Transferred from Stage 2	713,250	(907,903)	194,653	-
Transferred from Stage 3	-	18,141	(18,141)	-
Originated / (derecognized) during the year	1,790,176	(640,128)	338,456	<b>1,488,504</b>
Written-off during the year	-	-	(417,384)	<b>(417,384)</b>
<b>Gross carrying amount - 31 December 2019</b>	<b>26,319,746</b>	<b>2,704,403</b>	<b>1,761,170</b>	<b>30,785,319</b>

10.5 Movement in the provision for impairment of loans and advances and Islamic financing receivables and acceptances:

ECL AED'000	Stage 1	Stage 2	Stage 3	Total
<b>ECL allowance - 31 December 2019</b>	<b>220,482</b>	<b>271,207</b>	<b>801,551</b>	<b>1,293,240</b>
Transferred from Stage 1	(13,593)	82,133	139,591	<b>208,131</b>
Transferred from Stage 2	1,393	(121,160)	401,811	<b>282,044</b>
Transferred from Stage 3	-	330	(2,551)	<b>(2,221)</b>
Originated / (derecognized) during the year including changes in PDs / LGDs / EADs	56,790	330,603	450,323	<b>837,716</b>
<b>Net allowance for impairment losses</b>	<b>44,590</b>	<b>291,906</b>	<b>989,174</b>	<b>1,325,670</b>
Written-off during the year	-	-	(405,103)	<b>(405,103)</b>
<b>ECL allowance – 31 December 2020</b>	<b>265,072</b>	<b>563,113</b>	<b>1,385,622</b>	<b>2,213,807</b>

ECL AED'000	Stage 1	Stage 2	Stage 3	Total
<b>ECL allowance - 31 December 2018</b>	<b>166,819</b>	<b>188,542</b>	<b>809,461</b>	<b>1,164,822</b>
Transferred from Stage 1	(25,936)	34,400	78,851	<b>87,315</b>
Transferred from Stage 2	10,022	(65,210)	99,361	<b>44,173</b>
Transferred from Stage 3	-	1,296	(6,498)	<b>(5,202)</b>
Originated / (derecognized) during the year including changes in PDs / LGDs / EADs	69,577	112,179	237,760	<b>419,516</b>
<b>Net allowance for impairment losses</b>	<b>53,663</b>	<b>82,665</b>	<b>409,474</b>	<b>545,802</b>
Written-off during the year	-	-	(417,384)	<b>(417,384)</b>
<b>ECL allowance - 31 December 2019</b>	<b>220,482</b>	<b>271,207</b>	<b>801,551</b>	<b>1,293,240</b>

## 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 following table.

AED'000	2020	2019
<b>Contingent liabilities:</b>		
Letters of credit covering movement of goods	1,476,558	2,164,151
Financial guarantees and other direct credit substitutes	760,223	873,424
Bid bonds, performance bonds and other transaction related contingencies	4,895,109	5,202,745
	<b>7,131,890</b>	<b>8,240,320</b>
<b>Commitments:</b>		
Undrawn irrevocable commitments – credit related	169,577	183,179
Others	80,474	87,612
	<b>250,051</b>	<b>270,791</b>
	<b>7,381,941</b>	<b>8,511,111</b>

The total undrawn commitments which are revocable at the discretion of the Bank amount to **AED 12,102 million** (2019: AED 13,712 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.

## 11.1 Off balance sheet exposures stage-wise analysis:

The following table contains an analysis of the credit risk of relevant off balance sheet exposures and the related ECL. The gross carrying amount of off balance sheet exposures below represents the Group's maximum exposure to credit risk on these assets:

2020 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	5,674,286	950,537	189,348	<b>6,814,171</b>
Allowances for impairment (ECL) (note 12.1)	(19,058)	(7,155)	(95,756)	<b>(121,969)</b>
<b>Carrying amount</b>	<b>5,655,228</b>	<b>943,382</b>	<b>93,592</b>	<b>6,692,202</b>

2019 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	7,034,990	807,971	147,932	<b>7,990,893</b>
Allowances for impairment (ECL) (note 12.1)	(18,398)	(7,334)	(57,395)	<b>(83,127)</b>
<b>Carrying amount</b>	<b>7,016,592</b>	<b>800,637</b>	<b>90,537</b>	<b>7,907,766</b>

## 11.2 Movement in the gross balance of off-balance sheet exposures:

Outstanding balance AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount - 31 December 2019</b>	<b>7,034,990</b>	<b>807,971</b>	<b>147,932</b>	<b>7,990,893</b>
Transferred from Stage 1	(499,116)	497,750	1,366	-
Transferred from Stage 2	14,290	(94,557)	80,267	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(875,878)	(260,627)	(40,217)	<b>(1,176,722)</b>
Written-off during the year	-	-	-	-
<b>Gross carrying amount - 31 December 2020</b>	<b>5,674,286</b>	<b>950,537</b>	<b>189,348</b>	<b>6,814,171</b>

Outstanding balance AED'000	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount - 31 December 2018</b>	<b>6,433,141</b>	<b>1,163,486</b>	<b>31,944</b>	<b>7,628,571</b>
Transferred from Stage 1	(182,576)	126,819	55,757	-
Transferred from Stage 2	328,970	(401,173)	72,203	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	455,455	(81,161)	(6,842)	<b>367,452</b>
Written-off during the year	-	-	(5,130)	<b>(5,130)</b>
<b>Gross carrying amount - 31 December 2019</b>	<b>7,034,990</b>	<b>807,971</b>	<b>147,932</b>	<b>7,990,893</b>

**11.3 Movement in the provision for impairment of off-balance sheet exposures:**

ECL – AED'000	Stage 1	Stage 2	Stage 3	Total
<b>ECL allowances - 31 December 2019</b>	<b>18,398</b>	<b>7,334</b>	<b>57,395</b>	<b>83,127</b>
Transferred from Stage 1	(745)	3,078	687	<b>3,020</b>
Transferred from Stage 2	80	(1,174)	39,774	<b>38,680</b>
Transferred from Stage 3	-	-	-	-
Originated / expired during the year including changes in PDs / LGDs / EADs	1,325	(2,083)	(2,100)	<b>(2,858)</b>
<b>Net allowance for impairment losses</b>	<b>660</b>	<b>(179)</b>	<b>38,361</b>	<b>38,842</b>
Written-off during the year	-	-	-	-
<b>ECL allowance – 31 December 2020</b>	<b>19,058</b>	<b>7,155</b>	<b>95,756</b>	<b>121,969</b>

ECL – AED'000	Stage 1	Stage 2	Stage 3	Total
<b>ECL allowance - 31 December 2018</b>	<b>23,983</b>	<b>5,171</b>	<b>14,888</b>	<b>44,042</b>
Transferred from Stage 1	(570)	723	18,297	<b>18,450</b>
Transferred from Stage 2	477	(1,541)	29,774	<b>28,710</b>
Transferred from Stage 3	-	-	-	-
Originated / expired during the year including changes in PDs / LGDs / EADs	(5,492)	2,981	(434)	<b>(2,945)</b>
<b>Net allowance for impairment losses</b>	<b>(5,585)</b>	<b>2,163</b>	<b>47,637</b>	<b>44,215</b>
Written-off during the year	-	-	(5,130)	<b>(5,130)</b>
<b>ECL allowances – 31 December 2019</b>	<b>18,398</b>	<b>7,334</b>	<b>57,395</b>	<b>83,127</b>

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to **AED 122.0 million**, (2019: AED 83.1 million) is classified under other liabilities.

**12. Stage-wise ECL and movement in the impairment reserve**

12.1 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:

2020 AED'000	Loans and advances and Islamic financing receivables and acceptances	Due from banks and financial institutions	Investments and Islamic instruments	Off-balance sheet exposures	Total	ECL rate
<b>Stage 3</b>	<b>1,385,622</b>	-	-	<b>95,756</b>	<b>1,481,378</b>	<b>46.0%</b>
Stage 2	563,113	626	-	7,155	<b>570,894</b>	<b>13.2%</b>
Stage 1	265,072	10,702	4,693	19,058	<b>299,525</b>	<b>0.9%</b>
	<b>828,185</b>	<b>11,328</b>	<b>4,693</b>	<b>26,213</b>	<b>870,419</b>	
<b>Total ECL</b>	<b>2,213,807</b>	<b>11,328</b>	<b>4,693</b>	<b>121,969</b>	<b>2,351,797</b>	<b>5.5%</b>
<b>ECL rate</b>	<b>7.6%</b>	<b>0.7%</b>	<b>0.1%</b>	<b>1.8%</b>		

2019 AED'000	Loans and advances and Islamic financing receivables and acceptances	Due from banks and financial institutions	Investments and Islamic instruments	Off-balance sheet exposures	Total	ECL rate
<b>Stage 3</b>	<b>801,551</b>	-	-	<b>57,395</b>	<b>858,946</b>	<b>45.0%</b>
Stage 2	271,207	977	-	7,334	<b>279,518</b>	<b>7.9%</b>
Stage 1	220,482	7,930	2,173	18,398	<b>248,983</b>	<b>0.6%</b>
	<b>491,689</b>	<b>8,907</b>	<b>2,173</b>	<b>25,732</b>	<b>528,501</b>	
<b>Total ECL</b>	<b>1,293,240</b>	<b>8,907</b>	<b>2,173</b>	<b>83,127</b>	<b>1,387,447</b>	<b>3.1%</b>
<b>ECL rate</b>	<b>4.2%</b>	<b>0.4%</b>	<b>0.1%</b>	<b>1.0%</b>		

## 12.2 Impairment reserve:

Pursuant to the UAE Central Bank guidelines on IFRS 9 during 2018, banks are required to compare provisions calculated as per the UAE Central Bank and IFRS 9. Where UAE Central Bank requirement is higher, excess over IFRS 9 requirement is charged to Impairment reserve.

The following tables analyse the movement in the impairment reserve during the year ended 31 December 2020 and 31 December 2019:

AED'000	Impairment reserve - General	Impairment reserve - Specific	Impairment reserve
<b>At 01 January 2020</b>	-	<b>363,069</b>	<b>363,069</b>
Change in general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	-	-	-
Reduction in excess specific provision under CBUAE over stage 3 requirements under IFRS 9	-	(79,600)	(79,600)
	-	<b>(79,600)</b>	<b>(79,600)</b>
<b>At 31 December 2020</b>	-	<b>283,469</b>	<b>283,469</b>

AED'000	Impairment reserve - General	Impairment reserve - Specific	Impairment reserve
<b>At 01 January 2019</b>	<b>75,260</b>	<b>191,180</b>	<b>266,440</b>
Reduction in excess general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	(75,260)	-	(75,260)
Increase in specific provision under CBUAE over stage 3 requirements under IFRS 9	-	171,889	171,889
	<b>(75,260)</b>	<b>171,889</b>	<b>96,629</b>
<b>At 31 December 2019</b>	-	<b>363,069</b>	<b>363,069</b>

**13. Property and equipment and capital work-in-progress**

AED'000	Freehold land	Buildings & leasehold improvements	Motor vehicles, furniture, software & equipment	Total
<b>Cost</b>				
<b>At 1 January 2019</b>	<b>113,666</b>	<b>137,205</b>	<b>226,273</b>	<b>477,144</b>
Additions	-	37,333	13,627	50,960
Disposals / others	-	-	-	-
<b>At 31 December 2019</b>	<b>113,666</b>	<b>174,538</b>	<b>239,900</b>	<b>528,104</b>
<b>At 1 January 2020</b>	<b>113,666</b>	<b>174,538</b>	<b>239,900</b>	<b>528,104</b>
Additions	-	3,125	28,507	31,632
Disposals / others	-	(4,168)	(59)	(4,227)
<b>At 31 December 2020</b>	<b>113,666</b>	<b>173,495</b>	<b>268,348</b>	<b>555,509</b>
<b>Accumulated depreciation</b>				
<b>At 1 January 2019</b>	<b>-</b>	<b>82,339</b>	<b>169,914</b>	<b>252,253</b>
Charge for the year	-	14,676	22,099	36,775
On disposals / others	-	-	-	-
<b>At 31 December 2019</b>	<b>-</b>	<b>97,015</b>	<b>192,013</b>	<b>289,028</b>
<b>At 1 January 2020</b>	<b>-</b>	<b>97,015</b>	<b>192,013</b>	<b>289,028</b>
Charge for the year	-	12,310	19,154	31,464
On disposals / others	-	-	(59)	(59)
<b>At 31 December 2020</b>	<b>-</b>	<b>109,325</b>	<b>211,108</b>	<b>320,433</b>
<b>Net book value</b>				
<b>At 31 December 2020</b>	<b>113,666</b>	<b>64,170</b>	<b>57,240</b>	<b>235,076</b>
<b>At 31 December 2019</b>	<b>113,666</b>	<b>77,523</b>	<b>47,887</b>	<b>239,076</b>

13.1 Capital work-in-progress

AED'000	2020	2019
	<b>133,302</b>	<b>109,896</b>

13.2 Capital work in progress includes costs incurred in respect of the Group's branches, software and directly attributable costs relating to digitalisation initiatives, software and equipment purchases.

**14. Other assets**

AED'000	2020	2019
Accrued interest / profit	177,765	293,764
Prepayments and deposits	14,232	16,116
Customer liabilities for acceptances (note 17)	1,643,653	1,959,264
Fair value of derivatives	309,069	234,059
Others	449,386	280,305
	<b>2,594,105</b>	<b>2,783,508</b>

## 15. Due to banks and term borrowings

AED'000	2020	2019
<b>By type:</b>		
Bilateral borrowings (note 15.1)	440,760	293,840
Due to banks (note 15.2)	417,729	1,258,910
Repurchase agreements with banks	944,849	87,900
	<b>1,803,338</b>	<b>1,640,650</b>
<b>By geographical area:</b>		
UAE	555,330	1,061,461
GCC	36,929	112,816
Europe	840,328	232,470
Americas	368,292	221,004
Others	2,459	12,899
	<b>1,803,338</b>	<b>1,640,650</b>

As at 31 December 2020, due to banks include cash collateral of **AED 18.8 million** (2019: AED 1.7 million), in respect of positive fair value of derivatives, in accordance with the agreements with the interbank counterparties.

The investment securities under repo agreements amounted to **AED 1,128.5 million**. The accounting policy pertaining to the treatment of these transactions is explained in note 4 (aa).

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

Loan no.	Year obtained	Maturity	Interest rate	2020 AED'000	2019 AED'000
1	2019	Mar-20	Libor + Margin	-	183,650
2	2018	May-20	Libor + Margin	-	110,190
3	2020	Mar-22	Libor + Margin	73,460	-
4	2020	Mar-21	Libor + Margin	183,650	-
5	2020	Mar-21	Libor + Margin	183,650	-
				<b>440,760</b>	<b>293,840</b>

No Murabaha borrowing was outstanding as at 31 December 2020 (2019: Nil) for Shari'a - compliant Islamic window, NBF Islamic.

15.2 Due to banks include gold related borrowings amounting to **AED 139.1 million** (2019: AED 11.2 million) utilized to finance gold loans extended to customers on a matched basis.

**16. Customer deposits and Islamic customer deposits**

AED'000	2020	2019
<b>By type:</b>		
Demand and margin deposits	10,653,409	9,285,021
Saving deposits	653,969	391,187
Fixed term and notice deposits	18,458,723	22,273,522
	<b>29,766,101</b>	<b>31,949,730</b>
<b>By geographical area:</b>		
UAE	26,306,130	28,260,028
GCC	1,903,345	1,987,687
Europe	783,367	427,949
Americas	7,647	391,921
Others	765,612	882,145
	<b>29,766,101</b>	<b>31,949,730</b>

16.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha Wakala and Mudaraba deposits amounting to **AED 3,012.7 million** (2019: AED 4,589.5 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

**17. Other liabilities**

AED'000	2020	2019
Accrued interest / profit	135,312	257,236
Employee end of service and other long term benefits (note 17.1)	55,465	55,199
Accrued expenses	53,926	100,939
Board Committees attendance allowances	2,400	4,800
Liabilities under acceptances (note 14)	1,643,653	1,959,264
Fair value of derivatives	295,693	229,001
Allowances for impairment (ECL) for off-balance sheet items	121,969	83,127
Zakat payable	1,393	-
Others	320,455	174,757
	<b>2,630,266</b>	<b>2,864,323</b>

**17.1 Employee end of service and other long term benefits**

AED'000	2020	2019
At 1 January	55,199	51,094
Charge for the year	15,429	16,995
Payments during the year	(15,163)	(12,890)
At 31 December	<b>55,465</b>	<b>55,199</b>

**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 2020, 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 nil (2019: 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% (2019: 3.5%).

## 18. Shareholders' equity

### 18.1 Share capital

AED'000	2020	2019
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*Authorised, issued and fully paid:*

1,914,761,884 shares of AED 1 each (2019: 1,850,011,482 shares of AED 1 each)	<b>1,914,762</b>	<b>1,850,012</b>
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### 18.2 Proposed cash dividends and bonus issue

The Board of Directors does not propose a dividend for the year ended 31 December 2020 (2019: cash dividend of 10.0% and bonus shares 3.5% of share capital).

### 18.3 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 until such time as this reserve equals 50% of the issued share capital. 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. In view of loss for the year, no amounts have been transferred to the statutory and special reserve.

## 19. Tier 1 capital Securities

In October 2019, the Bank issued US\$ 350 million (AED 1,285.6 million) regulatory Additional Tier 1 (AT1) capital securities. These securities are perpetual, subordinated and unsecured and are classified as equity. The Bank can elect not to pay a coupon at its own discretion and has an option to call back the securities. The transaction costs relating to the issuance will be accounted for as deduction from equity.

## 20. Interest income and income from Islamic financing and investment activities

AED'000	2020	2019
Loans and advances and Islamic financing receivables (note 20.1)	1,300,346	1,703,138
Due from banks including the UAE Central Bank CDs (note 20.1)	78,747	139,862
Investments and Islamic instruments (note 20.2)	83,629	92,379
	<b>1,462,722</b>	<b>1,935,379</b>

20.1 Includes income from Islamic financing activities amounting to **AED 170.9 million** (2019: AED 209.1 million) for the year ended 31 December 2020.

20.2 Includes income from Islamic investment activities amounting to **AED 10.4 million** (2019: AED 18.6 million) for the year ended 31 December 2020.

## 21. Interest expense and distribution to Islamic depositors

AED'000	2020	2019
Due to banks including term borrowings	78,177	142,121
Customer deposits and Islamic customer deposits (note 21.1)	435,659	640,898
	<b>513,836</b>	<b>783,019</b>

21.1 Includes distribution to Islamic depositors amounting to **AED 102.6 million** (2019: AED 138.9 million) for the year ended 31 December 2020.

**22. Net fees and commission income**

AED'000	2020	2019
<b>Fees and commission income</b>		
Letters of credit	78,882	97,811
Letters of guarantee	64,471	62,366
Lending fees	90,544	164,335
Asset management and investment services	97	66
Commission on transfers	33,256	30,753
Others	11,861	13,182
<b>Total fees and commission income</b>	<b>279,111</b>	<b>368,513</b>
<b>Fees and commission expense</b>		
Brokerage expense	4,286	2,315
Card related charges	22,705	20,388
Other charges	5,094	3,424
<b>Total fees and commission expense</b>	<b>32,085</b>	<b>26,127</b>
<b>Net fees and commission income</b>	<b>247,026</b>	<b>342,386</b>

**23. Other operating income**

AED'000	2020	2019
Rental income	172	143
Rebates	7,423	9,480
Other miscellaneous income	37,117	41,714
	<b>44,712</b>	<b>51,337</b>

**24. Employee benefits expense**

No employee bonus recorded as employee benefits expense (2019: AED 55.9 million). The number of employees at 31 December 2020 was 719 including 587 employed by the Bank of which 267 were UAE nationals (2019: 790 including 638 employed by the Bank of which 273 were UAE nationals).

**25. Legal proceedings**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2020 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

## 26. Social contributions

The social contributions made during the year to various beneficiaries amount to **AED 0.3 million** (2019: AED 1.7 million).

## 27. Net impairment losses

AED'000	2020	2019
Loans and advances and Islamic financing receivables, acceptances and off-balance sheet items	1,364,879	590,017
Due from banks and financial institutions	2,421	2,177
Investments and Islamic instruments	2,520	827
	<b>1,369,820</b>	<b>593,021</b>

## 28. Loss / earnings per share

The calculation of loss / earnings per share is based on net loss of **AED 551.8 million** (2019: net profit of AED 507.1 million), after deduction of **AED 76.6 million** (2019: AED 45.1 million of Tier 1 capital notes coupon payment and additional Tier 1 capital securities issuance cost) of additional Tier 1 capital securities coupon payment and issuance cost divided by the weighted average number of shares of **1,914.8 million** (2019: 1,914.8 million shares after adjusting for bonus shares) outstanding during the year.

## 29. 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:

AED'000	2020	2019
<b>Statement of financial position items</b>		
Loans and advances and Islamic financing receivables	2,871,674	2,367,755
Customer deposits and Islamic customer deposits	7,186,566	6,737,173
Investments and Islamic instruments	165,876	186,875
Acceptances	22,504	17,430
Tier 1 capital securities	293,840	293,840
<b>Statement of changes in equity items</b>		
Tier 1 capital securities / notes coupon paid	17,264	14,809
<b>Contingent liabilities</b>		
Letters of credit	68,547	73,232
Financial guarantees and other direct credit substitutes	89,238	85,432
Transaction related contingencies	282,634	275,431

AED'000	2020	2019
<b>Statement of income items</b>		
Interest income and income from Islamic financing and investment activities	75,192	88,660
Interest expense and distribution to Islamic depositors	166,315	205,932
Other income	15,966	14,571
Operating expenses	26,776	24,093
<b>Key management compensation</b>		
Salaries and other short-term benefits	16,029	20,954
Employee end of service benefits	572	874
<b>Board Committees attendance allowances</b>	<b>2,400</b>	<b>4,800</b>

No stage 3 provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables given to related parties (2019: nil).

The loans and advances and Islamic financing receivables given to related parties amounting to **AED 2,871.7 million** (2019: AED 2,367.8 million) have been secured against collateral amounting to **AED 1,704.6 million** (2019: AED 1,478.5 million).

### 30. 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:

AED'000	2020	2019
Cash on hand	236,437	271,489
Balances with the UAE Central Bank (note 30.1)	2,493,575	761,151
Due from banks with less than three months maturity	889,747	1,065,529
	<b>3,619,759</b>	<b>2,098,169</b>
Due to banks with less than three months maturity	(241,860)	(1,051,430)
	<b>3,377,899</b>	<b>1,046,739</b>

30.1 Balances with the UAE Central Bank include certificates of deposit with less than three month maturity.

### 31. 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's operations are confined mainly 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.

##### 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 from 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 systems and Technology, 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 as follows:

2020 – AED'000	Corporate and institutional segment	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	697,857	300,747	130,844	256,103	<b>1,385,551</b>
Segment operating cost	(245,003)	(114,712)	(95,189)	(36,079)	<b>(490,983)</b>
<b>Segment operating profit</b>	<b>452,854</b>	<b>186,035</b>	<b>35,655</b>	<b>220,024</b>	<b>894,568</b>
Net impairment losses	(1,247,209)	(54,583)	(64,876)	(3,152)	<b>(1,369,820)</b>
<b>(Loss) / profit</b>	<b>(794,355)</b>	<b>131,452</b>	<b>(29,221)</b>	<b>216,872</b>	<b>(475,252)</b>
Segment assets	21,310,342	3,291,038	3,107,129	12,163,455	<b>39,871,964</b>
Segment liabilities	24,389,737	4,370,664	3,467,658	1,971,646	<b>34,199,705</b>
Capital expenditure	-	-	-	66,607	<b>66,607</b>

2019 – AED'000	Corporate and institutional segment	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	927,789	314,838	137,956	327,503	<b>1,708,086</b>
Segment operating cost	(279,120)	(137,434)	(110,514)	(35,814)	<b>(562,882)</b>
<b>Segment operating profit</b>	<b>648,669</b>	<b>177,404</b>	<b>27,442</b>	<b>291,689</b>	<b>1,145,204</b>
Net impairment losses	(477,326)	(87,897)	(23,043)	(4,755)	<b>(593,021)</b>
<b>Profit</b>	<b>171,343</b>	<b>89,507</b>	<b>4,399</b>	<b>286,934</b>	<b>552,183</b>
Segment assets	23,881,838	3,490,425	3,024,415	12,408,579	<b>42,805,257</b>
Segment liabilities	28,224,879	3,597,527	2,905,107	1,727,190	<b>36,454,703</b>
Capital expenditure	-	-	-	58,232	<b>58,232</b>

### 32. Zakat payable

This represents zakat payable by the Group on behalf of its shareholders to comply with the principles of Shari'a and is approved by the Internal Shari'a Supervision Committee (ISSC) of the bank and is calculated in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) accounting standard number 9 and Shari'a standard number 35 based on interpretation of ISSC. Zakat is transferred to the Zakat Fund in accordance with the UAE Central Bank's notice CBUAE/BSN/2020/3519 dated 03 August 2020 and other approved institutions by the ISSC.

### 33. Comparative figures

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