



# 2022

ANNUAL **REPORT**

**YOUR PARTNER IN SUCCESS**





**H.H. SHEIKH MOHAMED BIN ZAYED AL NAHYAN**

PRESIDENT OF THE UNITED ARAB EMIRATES  
AND RULER OF ABU DHABI



**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

**CONTENTS**

- 1** STRATEGIC REPORT
  - 7** DIRECTORS' REPORT
  - 19** CORPORATE GOVERNANCE REPORT
- 41** ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)
  - 45** INTERNAL SHARI'AH SUPERVISION COMMITTEE REPORT
  - 49** INDEPENDENT AUDITORS REPORT
- 53** GROUP FINANCIAL STATEMENT
  - 1** CONSOLIDATED STATEMENT OF FINANCIAL POSITION
    - 4** CONSOLIDATED STATEMENT OF CASH FLOWS
  - 2** CONSOLIDATED STATEMENT OF INCOME
    - 5** CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
  - 3** CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
    - 6** NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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  
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  
Fujairah  
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

Mohammad Ahmad Al Sakit Building  
Ground Floor, Al Khor Street, Al Ras  
PO Box 2979, Dubai  
Tel: 600 565551  
Fax: +971 9 202 9426

#### DUBAI SOUTH (EBSU)

Office No. 206-207, Ground Floor  
Building B2, Business Park  
Dubai World Central  
PO Box 17676, Dubai  
Tel: 600 565551  
Fax: +971 6 525 5887

### ABU DHABI

#### ABU DHABI BRANCH

Ground Floor, Al Danat Square Mall  
Al Sa'adah, Zone 1  
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

#### 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



# YEAR OF DISTINCTION AND PRECEDENCE



**Further diversifying our economy is a key strategic focus of our future plans. It is therefore necessary to accelerate economic development efforts to continue building a leading global economy, to enhance our competitiveness and achieve the highest global rankings.”**

**H.H. Sheikh Mohamed bin Zayed Al Nahyan**  
President of the United Arab Emirates  
and Ruler of Abu Dhabi

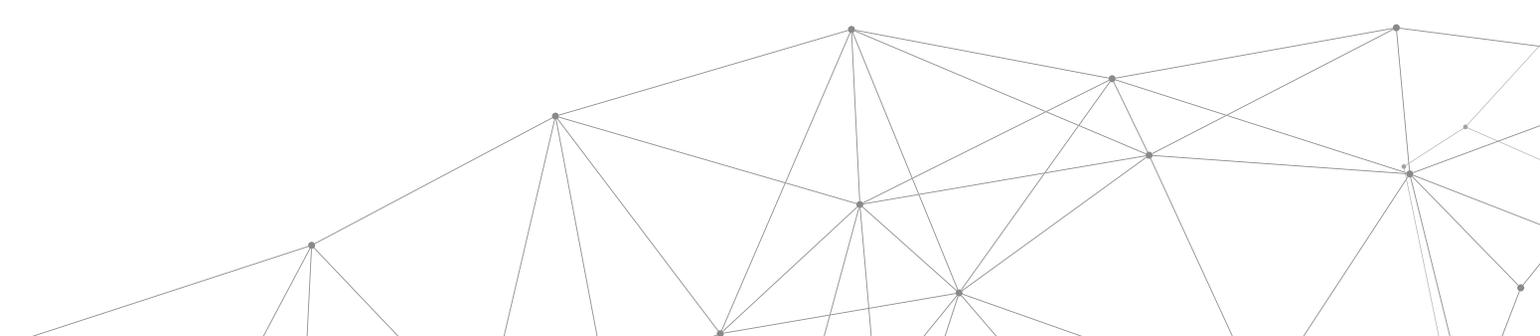


**On the path of our fathers, we continue, with determination and creativity and skill, to contribute to all fields, like education and production and trade. To those who want to make millions, we want to make culture. Our history is rich with a past that was granted a badge.”**

**H.H. Sheikh Mohammed bin Rashid Al Maktoum**  
Vice President and Prime Minister of the  
United Arab Emirates and Ruler of Dubai

At the very end of 2021, His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, wrote a poem for the New Year. That poem described 2022 as “the year of distinction and precedence” and set out His Highness’ ambitions for the UAE for the half a century that lay ahead. Writing on the eve of the UAE’s 51st year, he looked forward to the next 50 years, saying the country would continue to contribute to all fields, including education, culture, production and trade. “We do not disagree and we have no fear, and we give no thoughts to failure,” wrote His Highness. “On the path of our fathers, we continue, with determination and creativity and skill.”

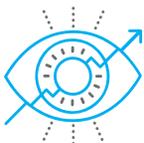
These are words that the National Bank of Fujairah (NBF) lived by during 2022 and are part of its future focus. By investing in its businesses, systems, infrastructure and people that enhance the bank’s customer service, NBF contributed to the year of distinction and precedence. The bank reinforced its ongoing commitment to the growth of the economy; supported various sectors of the economy through its trade finance expertise; continued its active role in enabling SMEs; enhanced its focus on sustainability in the UAE; and won a number of awards, including Best Commercial Bank, Best SME Bank and Best Trade Finance Bank at the MEA Finance Industry Awards 2022, and Best Innovation in Trade Finance at the Finance Banking Technology Awards 2022. As the UAE makes further strides towards a more sustainable future, NBF will align and support the nation’s goals to the very best of its ability.



# STRATEGIC REPORT

The UAE's bank of choice for almost 40 years, we at NBF leverage our deep experience of banking to build lasting relationships with our clients.





## 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



# P

### PASSION AND COMMITMENT

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



# R

### RESPECT

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



# I

### INTEGRITY

Be honest and transparent



# D

### DEDICATION TO TEAM WORK

Work towards common goals. Build effective teams across organisational boundaries



# E

### EXCELLENCE IN SERVICE

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

## NBF INTRODUCTION

NBF has been providing outstanding service to its customers for almost 40 years. One of the UAE's most well-respected banks, we have built an enviable reputation for excellence in corporate and business banking, trade finance and treasury, and have sought to be a proactive member of the local community since our inception. Our commitment to the economic development of Fujairah and the wider UAE is evident through our support of local industries, ranging from oil and shipping to precious metals and diamond, services, manufacturing, construction, education, and healthcare. Through our segmented focus we have also developed a solid track record of strong cultural heritage, deep market insight, and a clear focus on exceptional service and innovation.

As the UAE's bank of choice for almost four decades, NBF is recognised for its award-winning services, unrivalled understanding of local markets, and unwavering commitment to its customers. This has meant offering a full suite of banking services, including a comprehensive range of personal banking options and Shari'ah-compliant services, and playing an active role in the development of a progressive and inclusive culture. 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

NBF has a total of 15 branches, one of which is an electronic banking service unit. Whilst the highest number of branches are within Fujairah, where NBF is headquartered, the bank also has branches in Abu Dhabi, Dubai and Sharjah. It has 54 independent ATMs and CDMs spread across the country. In 2022, the Al Ras branch moved to the Mohammad Ahmad Al Sakit Building on Dubai's Al Khor Street, while the Abu Dhabi branch was relocated to Al Danat Square Mall, Al Sa'adah, Zone 1.

The subsidiary NBF Financial Services FZC was established in 2004 and provides the bank with key support services. NBF Markets (Cayman) Ltd is registered in the Cayman Islands and provides support services related to foreign exchange and derivative transactions.

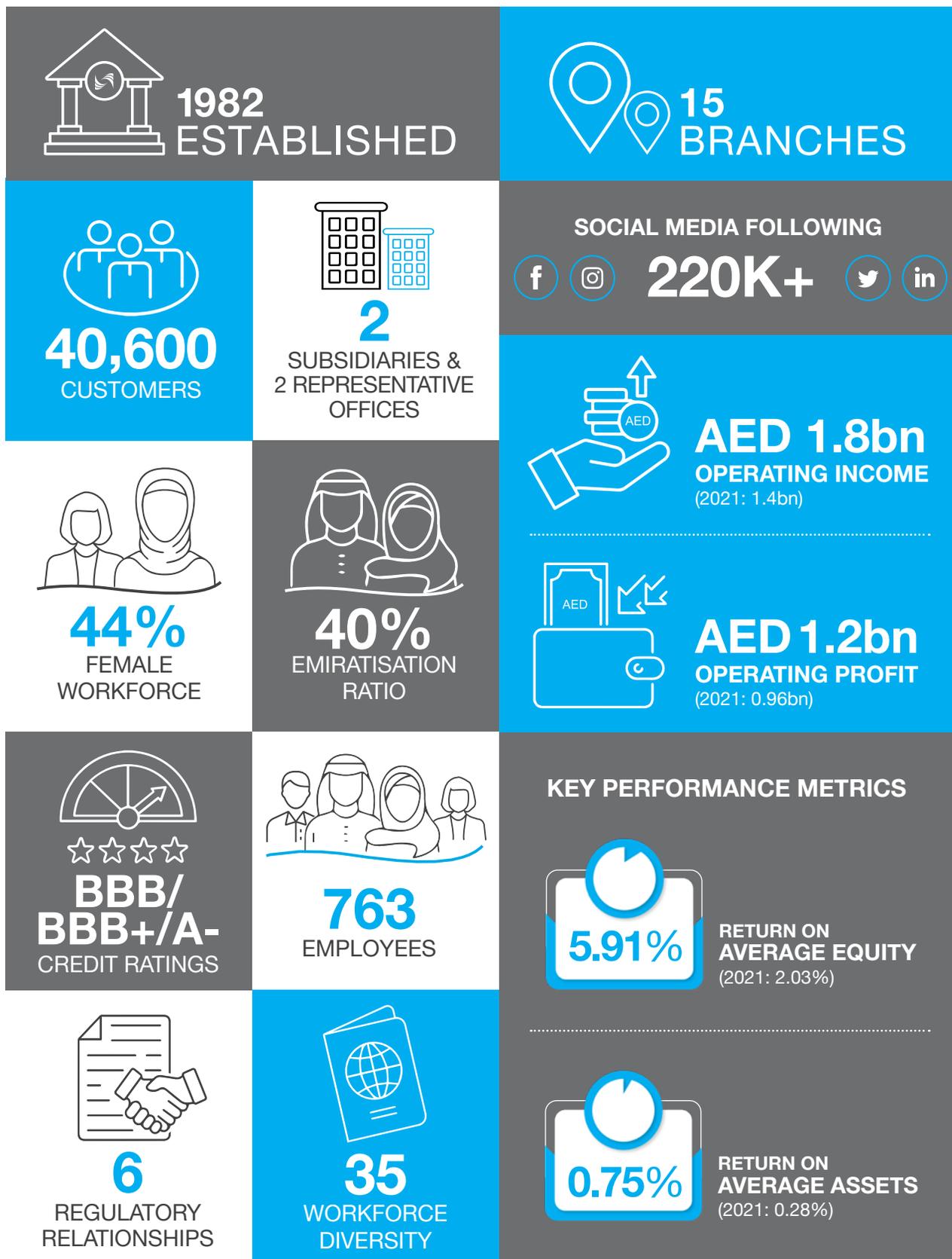
## OUR HISTORY

Established in 1982 following an Emiri Decree by the Ruler of Fujairah, His Highness Sheikh Hamad bin Mohammed Al Sharqi, NBF was given its banking license by the Central Bank of the UAE in August 1984. As a public joint stock company, NBF began operations as a full services corporate bank on 20 September the same year. It is listed on the Abu Dhabi Securities Exchange under the acronym NBF and its key shareholders include the Government of Fujairah, Easa Saleh Al Gurg LLC, and the Investment Corporation of Dubai. As a bank born and bred in the UAE, NBF plays a proactive role in the development of the local community and is proud of Fujairah's cultural heritage.



## 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'ah-compliant services.



## NBF BUSINESS MODEL

As a leading bank in the UAE, NBF provides corporate banking, business banking and retail banking services, along with niche expertise in areas of trade finance, treasury, cash management, precious metals and diamonds, energy and marine, education and health and Islamic banking.

### Our strengths and capabilities



#### a: Robust shareholding

The bank has had strong and long-term focused principal shareholders since its establishment. Key shareholders include the Government of Fujairah, Easa Saleh Al Gurg LLC and Investment Corporation of Dubai



#### b: Well-established relationships

A partnership focused bank, working with some of the biggest brands and a committed partner to SMEs in the UAE



#### c: Extraordinary talent

The most engaged and committed talent pool in the GCC region committed to continuous development



#### d: Vigorous fundamentals

One of the UAE's leading banks with a well-diversified balance sheet and strong credit ratings. Ample liquidity combined with efficiency, capital strength and strong investment grade ratings



#### e: Varied business offering

A leading industry-focused mid-market corporate banking, business banking and trade services player with a full range of banking services



#### f: ESG focused

Sustainable practices are embraced across the bank's operations, product offerings and business decisions



#### g: Service differentiation and digital focus

A digitally enabled bank delivering differentiated and exceptional customer service

### Our stakeholder impact



#### a: Our customers

We always value our customers by providing excellent services because it is they who are responsible for the continuation of our operations



#### b: Our employees

We endeavour to create the best working environment for our people in order to ensure their and our best performances



#### c: Our partners

Our strong partnerships help us achieve exceptional growth and success



#### d: Our shareholders

We strive to deliver the best sustainable returns to our investors



#### e: Our communities

We are proud to positively support the community and make a difference

2022

MEA Finance Industry Awards 2022:  
**Best Commercial Bank UAE**

MEA's Finance Banking Technology Awards 2022:  
**Most Innovative Trading Platform – NBFX**

MEA Finance:  
**Best Cyber Assurance and Resiliency Capabilities at the Wealth & Investment Summit 2022**

MEA Finance Industry Awards 2022:  
**Best SME Bank UAE**

MEA's Finance Banking Technology Awards 2022:  
**Best Innovation in Trade Finance**

MEA Finance Industry Awards 2022:  
**Best Trade Finance Provider**

2021

MEA Finance Awards 2021:  
**Best SME Bank**

MEA Finance Awards 2021:  
**Best Trade Finance Provider**

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

MEA Finance Banking Technology Awards 2021:  
**Most Innovative Emerging Technology Implementation**

2020

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

MEA Finance Awards 2020:  
**Best SME Bank**

# 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 CHAIRMAN

Many of us entered 2022 believing the troubles of the previous two years were behind us. The war in Ukraine changed that. A global grain shortage, rising inflation, the cost-of-living crisis and a slowdown in the global economy followed. Elevated food and energy prices were of particular concern, causing tighter monetary conditions and slowing global growth. Across the world, this led to increased food insecurity and heightened the possibility of widespread social unrest as the fallout from the conflict intensified.

Despite these challenges, NBF achieved record results in 2022, producing its best ever operating performance. This is an accomplishment all of us are extremely proud of and proves that NBF's strategy for future growth is well and truly on course. Supported by strong capital adequacy, sound improvement in asset quality, and robust balance sheet management, the bank increased operating income by 25.8 per cent to AED 1.8 billion, the highest in its 40-year history. Operating profit also increased by 29.4 per cent to AED 1.2 billion compared with AED 955.6 million in 2021. This increase was underpinned by higher net interest income and net income from Islamic financing and investment activities, fee and exchange income. Net profit was up 195.3 per cent at AED 340.4 million compared with AED 115.2 million in 2021.

The results demonstrate NBF's enhanced focus on quality business, an efficient funding base, continued economic recovery and improving resilience despite the uncertain geopolitical environment. The performance led the Board of Directors to propose a distribution of profits of 6 per cent (2021:nil) of the paid-up capital in the form of bonus shares.

As underlined during the Covid-19 pandemic, calling the UAE home proved a real blessing. Buoyed by higher oil prices (oil GDP projected to grow by 11 per cent in 2022, according to the Central Bank of the UAE) and an increase in non-oil GDP, the country weathered the global economic storm well. The tourism and hospitality, real estate, transportation and manufacturing sectors all performed better than expected, leading to stronger growth than initially anticipated.

2022 was a busy year for NBF. It enhanced its branch and ATM network, launched tailored offerings, such as Ertiq, an exclusive banking package for UAE Nationals, and partnered with Lune Technologies to provide high-value financial services to its customers. It also introduced CVVkey to tackle online card fraud and actively participated in Expo 2020. The latter led to the launch of two bank accounts designed to help businesses entering the country, highlighting NBF's support of the UAE economy. NBFX went from strength to strength and the bank acknowledged the UAE Nationals successfully graduating from the NBF Technology Academy's second intake of students. We also invested in multiple projects which are due to be launched throughout 2023, including an exclusive app for our retail customers, enhancements to NBF Connect, digital onboarding for business banking and corporate banking customers, and Apple Pay and Google Pay services.

Despite the continued challenges posed by an uncertain international environment and global inflation, NBF is confident in its ability to deliver sustainable shareholder returns. Further investment will help to facilitate future growth, generate long-term sustainable returns, preserve significant capital strength and enable the bank to benefit from the new opportunities arising from an increased focus on environmental, social and governance (ESG) matters. All of which augurs well for further growth in 2023 and beyond.

It was also pleasing to be recognised at the MEA Finance Awards 2022, where NBF was named Best Commercial Bank, Best SME Bank and Best Trade Finance Provider. The bank's commitment to digital excellence was recognised at the MEA Finance Banking Technology Awards 2022, where its electronic trading platform NBFX was named the Most Innovative Trading Platform. It also picked up the Best Cyber Assurance and Resiliency Capabilities Award, demonstrating that security is an integral part of NBF's digitalisation focus. Such awards highlight NBF's focus on customer centricity and are proof of our long-standing client partnerships.

We are grateful to our visionary leaders, President of the UAE H.H. Sheikh Mohamed Bin Zayed Al Nahyan, Vice President and Prime Minister of the UAE and Ruler of Dubai H.H. Sheikh Mohammed Bin Rashid Al Maktoum, and Member of the Supreme Council and Ruler of Fujairah H.H. Sheikh Hamad Bin Mohammed Al Sharqi for their unequivocal support.

I would like to thank NBF's Board of Directors, members of the Management Committee, and our employees for their hard work and dedication throughout what has been another challenging but positive year. Without their commitment and resilience, and without the support and trust of our customers and shareholders, 2022 would have been much harder. We look forward to a fruitful year ahead and further growth and prosperity for all.



**Saleh Bin Mohamed Bin Hamad Al Sharqi**

Chairman

25 January 2023

## STATEMENT FROM THE DEPUTY CHAIRPERSON

We are very proud of the outstanding set of results achieved by NBF in 2022. Our performance was strong and praiseworthy and was facilitated by the pace of economic recovery experienced by the UAE. The country's economy fared well during a period of global uncertainty characterised by soaring energy prices, high inflation and successive interest rate hikes. The government's sustainable spending, the positive outlook for credit growth, and the improvement in business sentiment all contributed to our historic performance. NBF is now strongly positioned to gain further from the quality business opportunities presented by the positive market momentum.

2022's results exhibit the continued effectiveness of our business and operational strategies, combined with positive revenue momentum and sound improvement in asset quality. As with previous years, the bank delivered exceptional customer service, spearheaded digital innovation, maintained financial stability, continued to meet compliance and regulatory standards, and supported its communities. We also enhanced our focus on sustainability initiatives, implemented Consumer Protection Regulations, and welcomed a new batch of management trainees. I was personally honoured to champion the role of Emirati women during Emirati Women's Day and look forward to further highlighting their important role in the UAE's social and economic development.

Despite ongoing macroeconomic uncertainty, our strategic focus and priorities are on track to ensure we return to our long-term trend of profitable growth. Improvement in both asset quality and the resources now available to the bank provide optimism for the future. The bank has successfully leveraged technology and progressed well in the execution of its digitally enabled bank strategy, while the leadership's staunch attention to prudent risk management standards, upholding the highest ethical and corporate governance practices, and the drive to deliver a differentiated and exceptional customer service will ensure our growth continues.

Despite the mild recessionary pressures forecast for 2023, we are confident that another successful year for the group will follow and we remain committed to contributing to the progress of the UAE's economy.

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 Management Team, as well as every single one of our staff for their hard work and dedication.



**Dr. Raja Easa Al Gurg**  
Deputy Chairperson  
25 January 2023

## YEAR IN REVIEW

**January**

The NBF Lite Bank Account is launched for SMEs and start-ups, providing the benefits of digital banking solutions to entrepreneurs.

**March**

NBF participates at the ICC UAE's Global Trade Facilitation Summit, reiterating its position as a leading financial partner and trade finance expert in the MENA region.

**May**

The bank wins two awards at the prestigious MEA Finance Banking Technology Awards 2022 – for 'Best Innovation in Trade Finance' and 'Most Innovative Trading Platform' NBFX.

Visa Platinum Business Credit Card is launched and is designed specifically for business spending.

**July**

The bank's half-year net profit reached AED 150.5 million, up 97.5 per cent on the previous year and representing a quarter-on-quarter surge of 49.4 per cent.

**September**

The winners of the second Annual Art Competition are announced, with the top 13 artworks exhibited at the Capital Club in DIFC.

**November**

A new Emiratisation programme called 'Mustaqbli' is launched for Management Trainee Program graduates and the second cohort of students graduates from the NBF Technology Academy.

The Annual NBF Knowledge Series takes place. Topics include 'Embracing Sustainable Finance' and 'Unlocking Opportunities, Leading Change'.

The sixth NBF Fujairah Run attracted over 2,270 runners.

**February**

The bank participates in Expo 2020 to increase footfall and providing tickets to customers and launching the Ahlan and OneStop accounts to support new businesses entering the country.

**April**

First quarter profits jumped by 43.7 per cent, reaching AED 60.4 million for the three-month period to 31 March 2022 as compared to the corresponding quarter last year.

**June**

The Al Ras branch of NBF is relocated to Al Khor Street in Dubai, providing better visibility and customer experience.

**August**

Dr Raja Easa Al Gurg champions the role of Emirati businesswomen during Emirati Women's Day.

Specifically focused on the needs of SME customers, the Shari'ah-compliant account packages Marhaba, Marhaba Plus and Marhaba Elite are developed in conjunction with business banking.

**October**

NBF joins forces with Finverity to grow supply chain finance and accounts receivables finance volumes in the Middle East and North Africa.

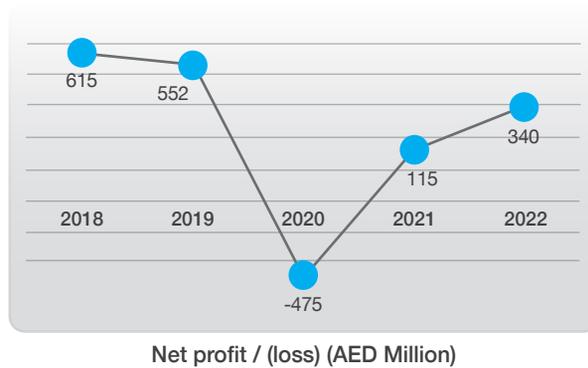
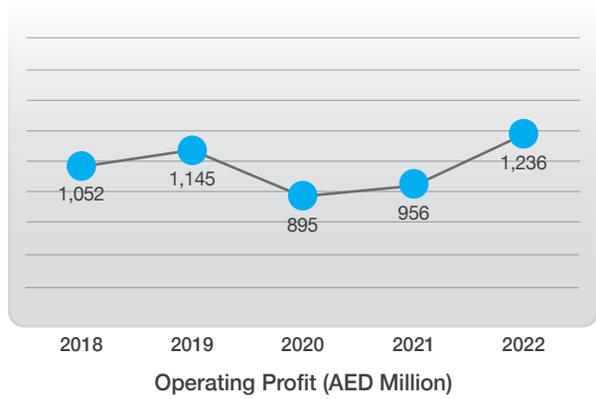
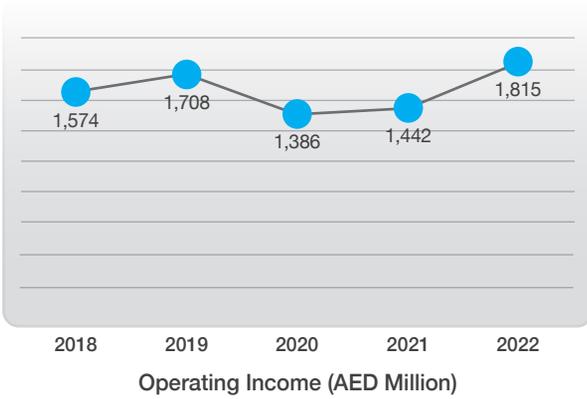
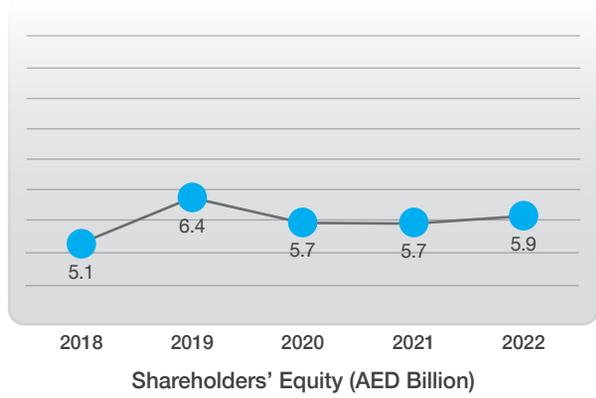
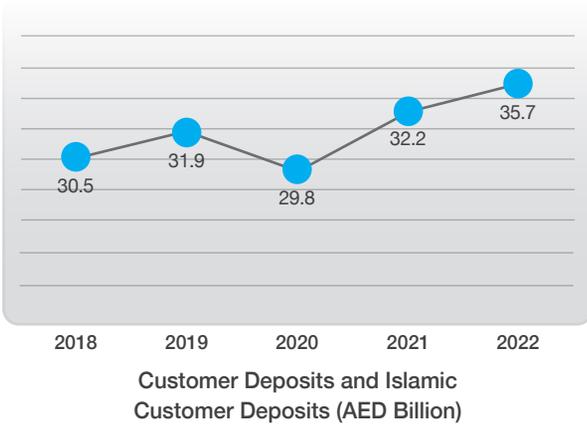
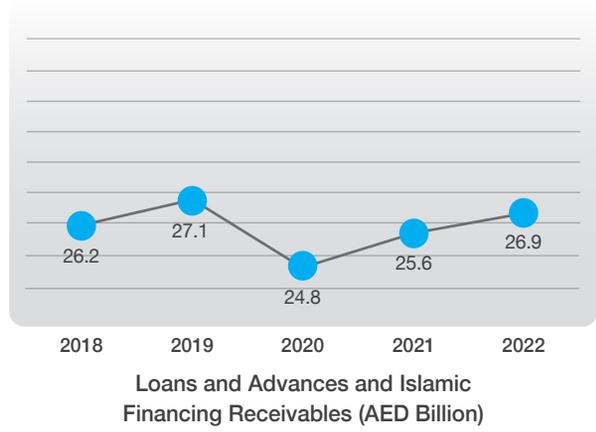
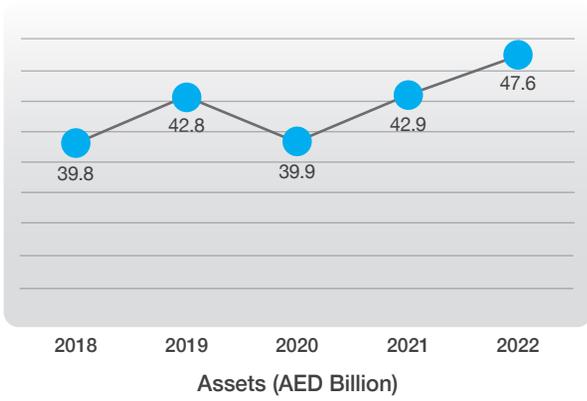
The bank's nine month profit reached AED 230.7 million, up 155.1 per cent compared to the corresponding period and representing a quarter-on-quarter surge of 463.4 per cent.

**December**

Branches and offices in Abu Dhabi are consolidated, providing a better customer experience, improved brand visibility and engagement.

A Trade Finance System was launched, as was a new Customer Communication Management System to help in the creation of highly personalised messages, marketing collateral and transaction documents.

## FIVE-YEAR PERFORMANCE SCORECARD



## FINANCIAL PERFORMANCE

In 2022, NBF's outstanding performance delivered its best ever operating results, reflecting an enhanced focus on quality business and the bank's efficient funding base.

|   | 2022<br>(AED Million) | 2021<br>(AED Million) | (%)<br>Change |
|---|-----------------------|-----------------------|---------------|
| Operating Profit  | 1,236.4               | 955.6                 | 29.4%         |
| Operating Income  | 1,814.6               | 1,441.9               | 25.8%         |
| Net interest income and net income from Islamic financing and investment activities | 1,221.2               | 941.1                 | 29.8%         |
| Foreign exchange and derivatives income   | 181.4                 | 114.2                 | 58.8%         |
| Income from investments and Islamic instruments                                     | 18.8                  | 42.3                  | -55.6%        |
| Net fees and commission income  | 332.5                 | 296.5                 | 12.2%         |
| Operating expense   | -578.2                | -486.3                | 18.9%         |
| Net impairment losses   | -896.0                | -840.4                | 6.6%          |
| Profit for the year   | 340.4                 | 115.2                 | 195.3%        |
| Loans and advances and Islamic financing receivables                                | 26,914.9              | 25,620.5              | 5.1%          |
| Customer deposits and Islamic customer deposits                                     | 35,735.9              | 32,198.7              | 11.0%         |
| Total assets  | 47,624.3              | 42,945.5              | 10.9%         |
| Recoveries  | 145.3                 | 230.2                 | -36.9%        |
| Cost-to-income ratio  | 31.9%                 | 33.7%                 | -1.9%         |
| Total provisions coverage ratio   | 110.0%                | 87%                   | 23%           |
| Non-performing loans ratio  | 6.9%                  | 9.8%                  | -2.9%         |
| Return on average equity  | 5.9%                  | 2.0%                  | 3.9%          |
| Return on average assets  | 0.8%                  | 0.3%                  | 0.5%          |

## ECONOMIC OVERVIEW

2022 was another year of global upheaval. Conflict in Eastern Europe, rising inflation, the lingering effects of the recent pandemic, and the cost-of-living crisis caused a significant slowdown in the global economy. According to the International Monetary Fund, global growth was forecast to fall from 6 per cent in 2021 to 3.2 per cent in 2022. With the exceptions of the 2007-2008 global financial crisis and the Covid-19 pandemic, this represented the weakest growth profile since 2001. Global inflation created serious strain for societies and communities across the world, rising from 4.7 per cent in 2021 to 8.8 per cent in 2022. Europe was particularly badly hit, with the worst energy crisis since the 1970s triggering higher fuel prices and a sharp economic slowdown.

In contrast, the UAE whilst not immune to the effects of inflation and the impact of significant geopolitical developments achieved its fastest annual economic growth in over a decade. This robust economic growth was propelled by a strong upswing in business activities, buoyancy in the property and construction sectors, and a rebound in tourism in the wake of an easing of travel restrictions. Elevated oil prices as well as a strong non-oil sector and activity related to Expo 2020 also impacted the economy positively. On the back of which, the UAE economy was projected to grow by 7.6 per cent, according to the Central Bank of the UAE, representing the highest increase in 11 years.

# 7.6%

Projected growth of the UAE economy by Central Bank of the UAE

## NBF STRATEGY 2022

Throughout the year NBF enhanced its focus on quality business and its funding base, the UAE's broad and continued economic recovery, and on improving resilience. Its business strategy revolved around developing client relationships, supported by the segmented approach adopted by the bank to serve its customer needs. The bank continued its strategy to acquire new customers and business in the areas of expertise enabled by exceptional service offerings. This also helped in building diversification and maintaining stable growth across all business segments. The bank invested further in its core business and accelerating digital innovation, concentrating on the needs of its customers.

NBF adapted proactively to optimise opportunities created by market volatility. Heightened market liquidity enabled the bank to grow its high-quality investment portfolio, which offered good risk-to-return and supported clients with appropriate foreign exchange and hedging solutions. This coupled with growth in customer business across all principal segments enabled NBF to achieve a record performance. A particular focus on risk management, transparency, and concentrating on consolidation and financial stability ensured that NBF was well placed to adapt its business growth during a year of global uncertainty.

The bank also maintained prudent recognition of problem accounts. The small number of exceptional group exposures that had been earmarked for resolution, progressed well in line with the bank's recovery strategy as evidenced by the significant improvement in the non-performing loans ratio.

## CUSTOMER FIRST APPROACH

Exceptional customer service is the cornerstone of NBF's positioning. During 2022 the bank improved client experience, drove organisational performance and efficiency, and contributed to the development of the country's next generation of talent. NBF placed 'transformational thinking' at the heart of its operations, leading to the creation of a dedicated client service team in addition to a relationship management function which, combined with structured integrated processes and cutting-edge technology solutions, significantly enhanced customer experience. This helped the retail customer net promoter score to reach +49, while the wholesale customer net promoter score reached +48.

NBF Connect continued to be the focal point for interacting with SMEs and our community. The bank received approximately 100 customer account requests digitally per month in 2022. NBF also partnered with the Emirates Development Bank (EDB) credit guarantee scheme to provide credit solutions to eligible SMEs and micro-enterprises. This customer first approach extended to over 30 networking, thought leadership and research projects, including two corporate client Knowledge Series events.

## TECHNOLOGICAL AND DIGITAL ADVANCEMENT

Innovation and digital transformation continued to be an important component within NBF's business strategy. During 2022, the bank's investments included a set of digitalisation initiatives that enhanced NBF's focus on exceptional customer service.

In the first quarter of the year, the bank launched the NBF Lite Bank Account in order to provide the benefits of digital banking solutions to start-ups and SMEs. A Trade Finance System that allows customers to submit their trade finance related requests digitally was completed, as was a Customer Communication Management System that improves outbound and interactive communication creation, delivery, storage and retrieval.

Online banking was continuously enhanced, with new functionalities added, including the integration of UAE Pass into the NBF instant account opening app. Such initiatives helped to boost the number of online/mobile transactions by 27 per cent and further improved customer service.

# 27%

Increase in online transactions in 2022

The bank also signed a partnership agreement with Lune Technologies, an Emirati financial data analytics company to develop and deploy its pioneering Lune Data Enrichment and Insights Platform. Such a platform enables the bank to

gain an indepth analysis of customer spending habits and customer priorities. The bank's digital marketing and social brand presence was enhanced with active engagement across its audience segments. As a result, its current engagement stands at more than 220,000 followers across multiple social media channels.



The bank's commitment to digital excellence was recognised at the MEA Finance Banking Technology Awards 2022, where its electronic trading platform NBFX was named the Most Innovative Trading Platform. The NBFX platform is an efficient, competitive, and user-friendly venue for executing Foreign Exchange and Commodity transactions as a compliment to NBF's clients.

### CYBERSAFE AND SECURITY

The increased use of digital platforms has heightened cybersecurity concerns in the wider community. In response, NBF has worked tirelessly to strengthen its layered security controls, increasing its cyber resilient capabilities and educating its workforce and customers about cyberattacks on a regular basis. To protect the identity of the bank's customers, NBF has built a robust cybersecurity strategy that focuses on three main pillars: identity protection, data protection and culture.

The bank has deployed the most advanced authentication methods, including biometrics and facial recognition and continues to evolve its techniques to maximise security. Its approach to data protection is steered by a cross-functional data governance forum, which is designed to ensure the bank manages data security, privacy, quality and overall performance in an effective way. In 2022, NBF introduced CVVkey, a proven solution to online card fraud that can be used across all credit and debit cards issued by the bank.

As part of the bank's cyber resiliency programme, NBF conducts various cyberattack simulations to test the effectiveness of its defences. It uses the learnings from these simulations to improve the bank's cyber resiliency as well as inform and evolve the bank's cybersecurity strategy. At the Wealth and Investment Summit 2022, NBF was recognised for its investment in this field, securing the Best Cyber Assurance and Resiliency Capabilities Award.

NBF also worked closely with the UAE Banks Federation and Dubai and Abu Dhabi police to increase fraud awareness. The bank's overall Cyber Risk Score, according to cyber threat intelligence company CTM360, is 96/100, placing NBF above the industry average of 93/100. The bank is ISO 27001 certified and complies with the standards set by the UAE National Electronic Security Authority (NES), the SWIFT Customer Security Programme, and the Payment Card Industry Security Standards Council. It also collaborates with regional and global regulators, industry peers, vendors,

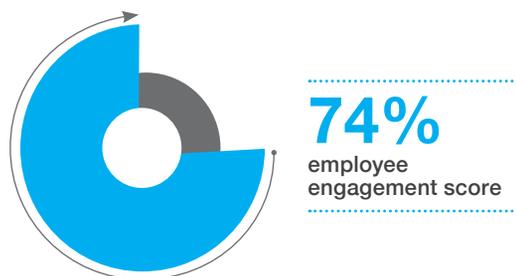
customers and law enforcement agencies with regards to threat intelligence and knowledge sharing. This includes being part of an information sharing platform managed by the Central Bank of the UAE.

All of the above contributed to NBF recording zero security breaches in 2022 for the third successive year. It also increased the provision of training related to data security and customer privacy from 80 hours to 100 hours.

### EMPLOYEE WELL-BEING, DIVERSITY AND INCLUSION

The well-being, engagement and upskilling of its people remained a priority for NBF. It continued to provide a stimulating work environment, improved its focus on work/life balance, and ensured that everyone within the organisation had the opportunity to grow, both personally and professionally.

The NBF Technology Academy's second cohort of 20 UAE National students graduated in November. In line with the bank's commitment to supporting Emirati talent, 14 of the graduates were offered positions at the bank in information technology management systems development management, customer experience and platform development, and risk management.



Employee training and development is one of the bank's key priorities, with online tools such as Harvard Manage Mentor and LinkedIn Learning utilised during the year. NBF's Employee Wellbeing Programme generated awareness of health and safety issues, with the bank committed to gender diversity, Emiratisation and equal opportunities. The bank kept its attrition rates well below the industry average (voluntary employee turnover was 5.79 per cent in 2022) and achieved very high scores for engagement. The bank's engagement score stood at 74 per cent –16 per cent ahead of the benchmark for GCC commercial banks, according to Kincentric, which conducts NBF's engagement surveys.

The bank also participated in the Nafis governmental federal programme aimed at increasing the competitiveness of the Emirati human resources and empowering them to occupy jobs in the United Arab Emirates' private sector over the next five years. This is in line with "Projects of the 50" initiative, which aims to accelerate the development journey of the UAE.

NBF continued to develop the next generation of Emirati professionals and maintained its Emiratisation ratio at 40.2 per cent, while building a high performing organisation with a continued focus on Emiratisation. In 2022, the bank's key Emiratisation initiatives included the Management Trainee Program (MTP), a Career Advancement Program, and the National Development Program. A new program called 'Mustaqbli' was introduced to fully equip MTP graduates with the knowledge and professional skills required to take on the role of relationship managers in corporate and business banking.

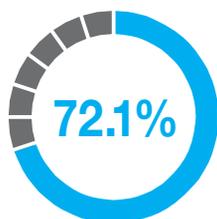
## NBF'S SECTOR SPECIFIC EXPERTISE DIFFERENTIATES US FROM THE CROWD

|  | Loans & Advances<br>(Industry)<br>2022*<br>% of total assets | Loans & Advances<br>(NBF)<br>2022<br>% of total assets |
|--|--|--|
|  Agriculture                                | 0.2%   | 0.1%   |
|  Mining and Quarrying                       | 2.0%   | 0.8%   |
|  Manufacturing                              | 5.7%   | 15.9%  |
|  Electricity, Gas and Water                 | 2.7%   | 1.1%   |
|  Construction and Real Estate             | 17.2%  | 11.6%  |
|  Trade                                    | 8.4%   | 29.8%  |
|  Transport, Storage and Communication     | 5.9%   | 6.3%   |
|  Financial Institutions (Excluding Banks) | 10.5%  | 0.6%   |
|  Government                               | 12.3%  | 3.2%   |
|  Personal Loans                           | 25.6%  | 16.5%  |
|  Others                                   | 9.5%   | 14.1%  |

\*Industry numbers are as of 30th September 2022

## BUSINESS PERFORMANCE

NBF's performance in 2022 was its best to date. The bank recorded year-on-year growth of 195.3 per cent to close the year with a net profit of AED 340.4 million, compared with AED 115.2 million in 2021. This reflected the bank's long-standing customer centric approach, good quality business growth and enhanced balance sheet management. Alongside the bank's highest ever operating profit of AED 1.2 billion, the bank also recorded its best ever operating income of AED 1.8 billion, up 25.8 per cent on 2021.



LSRR in 2022  
(2021: 76.5%)



ELAR in 2022  
(2021: 26.2%)

Ample liquidity was maintained, with lending to stable resources ratios (LSRR) at 72.1 per cent (2021: 76.5 per cent) and eligible liquid assets ratio (ELAR) at 24.9 per cent (2021: 26.2 per cent), well ahead of the Central Bank of the UAE's minimum requirements. In addition, net interest income and net income from Islamic financing and investment activities grew 29.8 per cent to AED 1.2 billion compared with AED 941.1 million in 2021. Such a strong performance enabled the return of dividends in the form of bonus shares at 6 per cent of paid-up capital.

## SEGMENT PERFORMANCE

### CORPORATE AND INSTITUTIONAL BANKING

NBF's largest segment in terms of assets, liabilities and income, corporate and institutional banking caters to the needs of large and midtier corporate clients and financial institutions. In 2022, the two segments represented 40.7 per cent of overall group operating income, compared with 38.2 per cent in 2021. Operating income stood at AED 738.7 million compared with AED 551.0 million the previous year. Additionally, assets reached AED 18.2 billion compared with AED 18.7 billion in 2021, and liabilities stood at AED 24.6 billion compared with AED 23.9 billion the previous year. Operating profit stood at AED 538.4 million compared with AED 396.4 million last year.

### BUSINESS BANKING

Recognised as a leader in the SME and business banking space, NBF's business banking segment manages clients with a turnover of up to AED 400 million. It was another notable year for the segment, with the bank pursuing a growth strategy that leverages NBF's diverse loan book and highly profitable businesses. Business banking operations contributed 33.0 per cent to the group's overall operating income compared with 33.8 per cent in 2021. Net profit stood at AED 275.7 million, representing a growth of 9.7 per cent on the previous year. The segment's assets totalled AED 7.0 billion in 2022, compared with AED 6.2 billion in 2021. The segment's liabilities reached AED 10.2 billion in 2022 compared with AED 8.4 billion in 2021.

### RETAIL BANKING

Growth of the bank's retail banking segment was a priority for NBF in 2022, with an enhanced focus on building partnerships and collaborations with Fintech and other service providers. Retail banking assets and liabilities grew to AED 4.1 billion from AED 3.5 billion in 2021 and to AED 3.4 billion from AED 2.4 billion in 2021 respectively. Operating income was AED 159.2 million, a change of 10.3 per cent compared with AED 144.4 million in 2021.

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

Treasury and ALM performed dynamically in 2022, supporting the bank's performance and achieving a net profit of AED 272.6 million compared with AED 224.8 million in 2021.

Exchange and derivative income posted a record income of AED 181.3 million compared with AED 114.2 million in 2021. NBF's investment portfolio was proactively managed in the face of one of the most volatile market conditions, outperforming external benchmarks. The portfolio's mark to market impact stood at -2.41 per cent compared with an external benchmark of -16.25 per cent. The bank recorded growth in its investment grade investment portfolio of 45 per cent which, combined with effective ALM, helped to improve the bank's interest margins to 2.73 per cent.

### NBF ISLAMIC

Offering a wide range of Shari'ah-compliant products and services to consumer and corporate clients, NBF Islamic customer deposits rose by 19.2 per cent to reach AED 4.2 billion. NBF Islamic constituted 10.6 per cent (2021: 11.3 per cent) of overall group assets and 11.6 per cent (2021: 10.8 per cent) of group deposits.



NBF Islamic customer deposits growth



NBF Islamic contribution to group assets



NBF Islamic contribution to group deposits

## ENTERPRISE RISK MANAGEMENT

NBF's enterprise-wide risk management framework outlines how the bank manages risk. It provides a structure and a discipline for risk management activities, and these disciplines are built on the foundation of a strong risk culture that requires all staff to own risk outcomes. NBF's 'Three Lines of Defence' model is at the heart of how the bank manages risk. The model highlights the issues of risk ownership, challenge and assurance where these tasks are performed by independent teams to ensure that risk is taken within the confines of the bank's Risk Appetite Statement.

The bank's risk management department provides NBF's independent challenge function and is given the responsibility of considering the extent and the quality of the risks taken by the risk-taking functions. This is done by using techniques such as stress testing and modelling. NBF's risk governance processes and reporting are transparent and ensure that the bank's risk profile remains visible, with decision-making informed by timely and accurate risk data. The bank is therefore able to take corrective action when required.

## 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 Combating the Financing of Terrorism (CFT). NBF's AML/CFT 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. Conduct Risk is actively managed by NBF, there are a number of compliance policies implemented to supplement the Bank's 'Code of Conduct' to ensure positive customer outcomes. These principles are at the core of our client engagement. In 2022, the bank made significant enhancements to its internal Customer Risk Rating Methodology and Country Risk Assessment Methodology. It also improved its control framework addressing trade based money laundering; conducted multiple training sessions covering all

staff; and made a series of significant enhancements to the bank's complaints handling processes. The latter included increased oversight from the Compliance Department while continuing to meet relevant regulatory turnaround times.

## THE YEAR AHEAD

The UAE economic outlook remains positive and NBF will seek to capitalise on that positivity. Given the booming oil sector, which will drive further economic growth in the UAE in 2023, the bank will tap new quality business opportunities.

In the immediate future, NBF's primary goal is to protect the bank's core base and maintain its stable progression in the current environment and develop the foundation for future growth by transitioning toward a digitally enabled bank.

In the longer term, NBF's focus remains on securing its position among the top five most profitable local banks in the UAE. As such, its broad direction focuses on quality growth underpinned by its customer centricity, its progress as a digitally enabled bank and a strengthening of its organisational design and people empowerment. In addition, the bank will build on its enhanced focus on environmental, social and governance (ESG) activities, which remain fundamental to a sustainable future. All of which is in line with the UAE government's ambitious plans for 2023.

## EMPOWERING OUR CLIENTS

Customers will remain at the heart of everything the bank does in the year ahead. NBF will increase brand awareness and new customer acquisition through targeted engagement and segmented focus. It will continue to focus on SMEs, the mid-corporate space and specialised sectors such as precious metals, diamonds, energy, marine and equipment finance and services. With corporate tax to be introduced in the UAE in June 2023, NBF will support its clients during the period of transition and a series of projects and knowledge sharing sessions are lined up. The bank is also in the process of introducing a priority plus segment within retail banking to provide a bespoke proposition and dedicated relationship management.



## FROM DIGITALLY FOCUSED TO DIGITALLY ENABLED

The significant initiatives the bank is undertaking towards greater automation and digitalisation will continue to be key to the way NBF manages its operations. To support this vision, NBF has a number of developments planned for 2023 that will help to build and strengthen the bank's digital workforce. First and foremost, it will ensure that its employees are equipped with the skills to thrive in a digital world. It has reviewed its competency model to better reflect the digital mindset and behaviours and will launch a digital academy to provide employees with improved training opportunities.

Key projects for the year ahead include an exclusive app for retail customers, which will act as a 'one-stop solution' for all retail banking requirements. The launch of NBF Markets will see the bank enhance its customer experience, allowing them to execute trades in foreign exchange, bonds, commodities, equities and ETFs on a real-time basis. NBF Connect is being enhanced and will provide a fast and completely virtual way of adding new business customer accounts. The new addition will be launched in 2023 and will support account opening for all business segments in an efficient, simplified and paperless format. In addition, Apple Pay and Google Pay apps will be introduced and real-time support through the NBF website, chat and video call options will be implemented. The bank is also investing in leveraging its data assets and generates valuable business insights for better servicing client needs.

It will further work to strengthen security controls, increasing its cyber resilient capabilities and will embrace Artificial Intelligence in order to take NBF's cyber security maturity to the next level.

## ESG

The bank will continue to build sustainable practices into its business in 2023. With COP28 taking place in Dubai in 2023, global attention will be on the UAE, which has set the UAE Green Agenda 2015-2030 and will transform the nation into a

global hub for sustainable development. NBF's ESG approach aligns with the sustainability vision of the country. Integrating an ESG risk assessment into the bank's credit appraisal processes is a point of focus, while a structure for ESG governance throughout the bank has been set. This will ensure ESG issues are considered at all levels of the organisation. To know more about our sustainability and CSR efforts, please visit [nbf.ae](http://nbf.ae) to read the consolidated 'NBF ESG Report 2022'.

## RISK AND COMPLIANCE

Robust internal controls and best-practice compliance are an integral part of NBF's strategy and business discipline, including an expectation that continual improvement will ensure NBF mitigates the risk of facilitating financial crime. 2023 will see the bank continue to deliver improvements in AML controls, including technology upgrades to NBF's monitoring and screening systems. NBF's Compliance team will also continue to support the bank's digital initiatives.

Two significant initiatives will be implemented in 2023. The first is the implementation of advanced AI-based capabilities to detect and prevent fraudulent transactions and behaviour. The second is the introduction of a state-of-the-art model governance capability. This will allow NBF to automate model validation and improve forecasting capabilities from decision tools effectively and efficiently.

## OUR PEOPLE, OUR STRENGTH

The bank's employees were the driving force behind NBF's remarkable success in 2022. This will continue into 2023 as the bank strengthens its workforce by applying world class, well established and bespoke practices. The year ahead will be all about speed, change, adaptability, agility, and the ability to learn and deliver. This will require a fully committed workforce that believes wholeheartedly in the NBF brand. The bank will concentrate on adapting and improving staff skills to fit in with NBF's digitally enabled ethos and will continue to focus on Emiratisation, particularly for critical Emirati roles.





## 1. THE BANK'S APPROACH TO FULFILLING ITS CORPORATE GOVERNANCE OBLIGATIONS AND THE PRINCIPAL ACTIONS TAKEN IN 2022

National Bank of Fujairah PJSC ("NBF" or "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 underpins our business model.

Delivering exceptional business outcomes based on strong risk management and governance is a core aspect of the bank's strategic intent and we have clear and comprehensive governance policies, procedures and practices throughout NBF.

Our approach to corporate governance is intended to ensure the highest levels of transparency and accountability.

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.

The Board has also established board committees in line with best practice to fulfil its responsibilities effectively. Specifically, the Board has created three sub-committees and delegated specific functions to these sub-committees to ensure that there is specific focus directed towards the critical issues of management of risk, the adequacy of the internal control within the bank, and the appropriate recruitment, succession, performance management and remuneration of the Board and Senior Management.

These sub-committees are the Board Risk Committee, the Board Audit Committee and the Board Nomination and Remuneration Committee.

At an executive level, the Management Committee and Management Risk Committee provide strategic direction and senior management oversight with regards to the operation of other subsidiary management committees in the bank.

The bank's corporate governance system operated effectively during 2022. The Board, Board sub-committees and management committees were convened to perform their obligations in line with the charters and provided the required oversight.

During 2022, NBF continued to review its corporate governance practices in light of changes to the business strategy, the external business environment and evolving stakeholder expectations.

The Board of Directors has approved and implemented new policies relating to embedding a Fit and Proper process for the appointment of members of the Board and for Senior Management. It has also formalised pre-existing processes related to the declaration of conflicts of interest and processes for the consideration of related party transactions.

They have also heightened the attention given to diversity, and specifically Article 5.1.1 of the Board Policy referring to the Fit and Proper process states:

'When considering the appointment to the Board of Directors, the Board shall ensure that it has considered a broad range of potential candidates with appropriate and diverse skills and experience and shall ensure that at least 20 per cent of candidates considered are women.'

In 2022, the Board Nomination and Remuneration Committee approved the introduction of a new remuneration scheme for staff that recognised the need to balance incentive payments with the time that adverse risk consequences take to become evident. Senior Management and Material Risk Takers variable pay is now subject to a deferred proportion with the possibility of clawback in some cases. Incentive payments for most staff are related to delivery of the bank's performance targets and the individual's performance against personal objectives.

For staff in the control functions of Internal Audit, Risk Management and Compliance Department, incentive payments are governed by a separate incentive scheme that is determined by delivery of personal and departmental objectives and are not determined by the profitability of the bank. Payments under this scheme are approved by the Chairs of the Board Risk Committee and the Board Audit Committee.

### Risk Exposures

The NBF Group recognises that risks exist in all of our activities and that we need to have a clear and ordered approach to identification, assessment, measurement, reporting and treatment of risks based on a clear statement of Risk Appetite. Our Board of Directors considers the context of our business strategy and internal and external drivers of risk and sets boundaries for acceptable risk taking in our Risk Appetite Statement. Management then seeks to implement the Business Strategy and Operational Plans within those boundaries. To do this effectively, we apply a "Three Lines of Defence" operating model in relation to the management of risk. The key principle of the model is that risk management capability must be embedded within the business to be effective. The role of each line is:

First Line – Businesses own risks and obligations, and the controls and mitigation strategies that help manage them.

Second Line – Functionally segregated Risk Management and Compliance functions, reporting into Board Risk Committee, develop risk management frameworks, define the risk management principles in the bank's policies, provide objective review and challenge regarding the effectiveness of risk management within the first line businesses, and execute specific risk management activities where the functional segregation of duties is required or a specific expertise is required.

Third Line – An independent Internal Audit function, reporting to the Board Audit Committee, monitors the effectiveness of risk management in the first and second lines and compliance with the Enterprise wide Risk Management Framework and the bank's policies.

We then apply a structured approach to risk measurement and reporting which is assessed against our Risk Appetite and is overseen by specialised risk governance committees to ensure transparency and that any position outside appetite or trending in that direction has appropriate remediation action plans approved and governed to finalisation.

Risk governance is key to successful risk taking. It involves a formal structure used to support risk-based decision-making and oversight across all our operations.

The Board has established the Board Risk Committee, to assist it in carrying out its responsibilities that are set out in its Charter. It receives regular reporting from management and it provides guidance to management where required as well as consideration and approval of specific matters referred to it.

Management has a number of management committees focused on our Material Risk classes or categories tasked with decision-making and oversight of remediation where required.

The Material Risks that arise from our activities are defined as:

#### **Credit Risk**

Credit Risk arises from our activity of granting credit facilities to our customers in the normal course of our business. Credit Risk is defined within NBF as: The risk of loss arising from the non-performance by a customer, client or counterparty in any of its financial obligations towards NBF. The definition of Credit Risk includes country risk, concentration risk and related party risks.

NBF's detailed policies in respect of Credit Risk are set out in the NBF Credit Risk Management Framework ("CRMF") and supporting policies.

#### **Treasury Risk**

Treasury Risk arises from our activities of raising deposits and lines of credit from capital markets to fund the lending activities of the bank, and from facilitation of risk management techniques at the request of our customers through entry into swaps and foreign currency transactions and from investment activities on our own account. We define Treasury Risk as the risk of loss arising from activities undertaken in, or impacted by, financial markets generally. This includes both Market Price Risk as well as ancillary risk such as Liquidity, Funding (liability) and Interest Rate Risk in the Banking Book.

NBF's detailed policies in respect of Treasury Risk are set out in the NBF Group Market Risk Management Policy and Liquidity Risk Management Policy as well as the Treasury Risk Process Guidance.

#### **Operational Risk**

Operational risk arises in all of our activities and it is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

NBF's detailed policies in respect of Operational Risk are set out in the NBF Operational Risk Management Framework (ORMF). The ORMF aggregates the following additional elements of risks:

- Information Technology Risk
- Disaster Recovery and Business Continuity Management
- Human Resources/Personnel Risk
- Processing Risks
- Insurance Risk and
- Risks in new Businesses, Products & Systems.

#### **Regulatory Compliance Risk**

Regulatory Compliance risk arises principally from our activities as a bank that is subject to the regulation of the Central Bank of the UAE and also arising from our legal status as a Public Joint Stock Company. This risk is defined as the risk of losses, fines or penalties resulting from the failure of individuals, or of the organisation to comply with legislation or regulation.

NBF's policies in respect of compliance risk are set out in the bank's Compliance Policy. AML/CTF Risks are documented in the bank's AML Policy, Sanctions Policy and supporting processes.

#### **Information Security Risk**

This risk is defined as the potential that a given threat will exploit vulnerabilities of an asset or group of assets and thereby cause harm to the organisation.

NBF's Information Security Risk Management Framework (ISRMF) will ensure that information security risks in the entity are identified, assessed, and evaluated, and that these risks are treated in accordance with the information security requirements and business objectives of NBF.

NBF's detailed policies in respect to Information Security is defined in the Information Security Management System (ISMS) Framework. This ensures:

- NBF's Information resources in whatever form they exist both electronic and non-electronic are appropriately protected from compromise of their confidentiality, integrity and availability.
- Controls and protection requirements are accomplished in a manner consistent with the business and work flow requirements of NBF ISRMF and ISMS supports the general concepts specified in National Electronic Security Authority (NESA), National Cyber Risk Management Framework (NCRMF) and ISO/IEC 27001 and is designed to assist the satisfactory implementation of information security controls at NBF.

#### **Shari'ah Compliance Risk**

The bank operates an Islamic window for the provision of Shari'ah-compliant banking services. Whilst considered and reported as part of the overall Operational Risk Management Framework for capital purposes, Shari'ah Compliance has such significance that it has its own Framework, Governance processes and Assurance. We have an Internal Shari'ah Supervision Committee to provide guidance on and approval for matters pertaining to Islamic Shari'ah.

The approved statement of compliance with Islamic Shari'ah is published in our Annual Report.

#### **Country and Transfer Risk**

Country Risk is defined as the risk of loss resulting from events in a foreign country, which may include changes in economic, social, political or regulatory conditions that affect obligors in that country and, potentially, obligations denominated in that country's currency.

Transfer Risk is defined as the risk that a borrower will not be able to convert local currency into foreign exchange and so be unable to make debt service payments in that foreign currency.

NBF is committed to the implementation of best practices and governance standards.

The Board of Directors has overall responsibility for the establishment and oversight of 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 to enhance the oversight mechanism to carry out its responsibilities effectively.

#### **Risk Appetite, Enterprise-wide Risk Management and the Internal Control Framework:**

Risk Appetite is the degree of risk that the bank is prepared to accept in pursuit of its strategic objectives and strategic plan, considering NBF's various stakeholders, including depositors, shareholders and other relevant parties. The Risk Appetite Statement (RAS) intends to document the bank'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 articulates the aggregate level and types of risk that the bank 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 has approved the Enterprise-wide Risk Management Framework document that describes how the bank manages all of its material risks.

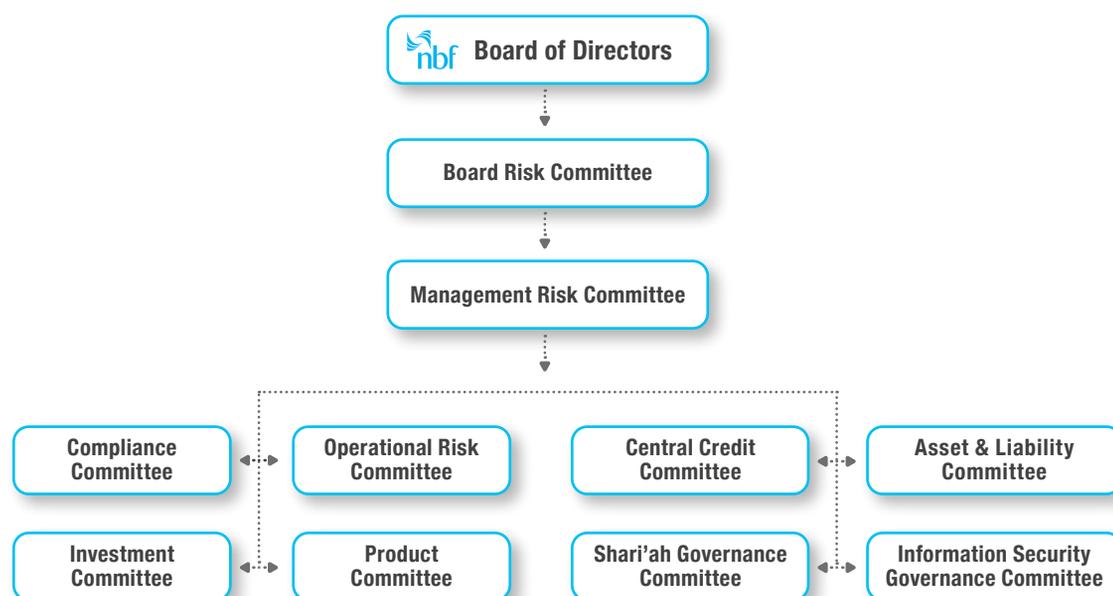
NBF has zero tolerance for non-compliance with its Risk Appetite, policies and procedures and strongly promotes a risk based culture across the bank. The bank reinforces this through various channels that include communication of Risk Appetite and risk policies annually to all staff for mandatory reading, a compulsory training program and quarterly compliance certification process. The bank has also established a robust operational risk program to report any error or process failure and, regular monitoring of Key Risk Indicators.

The bank has a well-established mechanism to set and monitor operating limits, with any deviations from risk thresholds captured in the Breach register with clear delegation of authority for approval of remediation at management and board governance committees.

Responses to Risk Profile being outside our Appetite is based on whether there is a breach of a hard limit, a management action trigger or target range. These indicators are measured on a daily basis through management information systems and platforms developed by the bank. Responses to risks that arise in our business will depend on the type and level of the risk. Risks can be Accepted, Avoided, Treated or Transferred.

All risks within appetite are deemed to be accepted. Risks outside our appetite require decision-making.

Our Risk Governance Structure is set out below:



In setting the bank's Risk Appetite, the Board has considered factors evident at that time relevant to the domestic economy, regional economy and global economy.

In shaping the bank's current Risk Appetite and strategic plan, the Board has particularly paid attention to the potential for inflationary pressures in the global economy to reduce demand for energy, tourism and hospitality

services. These factors can have an adverse effect on the trading outcomes of local business which in turn has an impact on credit risk.

Geopolitical issues remain under close watch, and while the bank has very limited direct exposure to Ukraine and to Russia, tensions impact many of our trading partners and can adversely impact supply chains.

## 2. THE TRANSACTIONS OF THE BOARD OF DIRECTORS AND THEIR SPOUSES AND CHILDREN IN THE SECURITIES OF THE BANK DURING 2022

| Name   | Position / relationship | The shares owned as on 31/12/2022 | Total sale | Total Purchase |
|--|-------------------------|-----------------------------------|------------|----------------|
| Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi | Chairman                | -                                 | -          | -              |
| Dr. Raja Easa Saleh Al Gurg                  | Deputy Chairperson      | 50,031                            | Nil        | Nil            |
| Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi | Member                  | -                                 | -          | -              |
| Hussain Mirza Al Sayegh                      | Member                  | -                                 | -          | -              |
| Saif Sultan Al Salami                        | Member                  | -                                 | -          | -              |
| Dr. Sulaiman Mousa Al Jassim                 | Member                  | 1,706,872                         | Nil        | Nil            |
| Mohamed Obaid Bin Majed Al Aleeli            | Member                  | 435,032                           | Nil        | Nil            |
| Abdulla Fareed Al Gurg                       | Member                  | -                                 | -          | -              |
| Ahmed Saeed Al Raqbani                       | Member                  | -                                 | -          | -              |

The above-mentioned Board members did not purchase or sell any shares during the year 2022.

## 3. FORMATION OF THE BOARD OF DIRECTORS

### A. The formation of the current Board of Directors

| Name   | Category (executive, non-executive and independent)  | Experiences and Qualifications  | The period he spent as a member of the bank's Board of Directors from the date of his first election | Memberships and positions in any other joint stock companies | Positions in any other regulatory, government or commercial positions  |
|--|--|---|--|--|--|
| Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi | <ul style="list-style-type: none"> <li>Chairman</li> <li>Non-Executive Member</li> <li>Non-Independent Member</li> </ul> | <ul style="list-style-type: none"> <li>Completed standard military course from Royal Military Academy Sandhurst.</li> <li>Served in the UAE Armed Forces as a Colonel.</li> </ul> | Since 1984<br>39 years   | -  | <ul style="list-style-type: none"> <li>Chairman of Department of Industry and Economy, Govt. of Fujairah, which controls Port of Fujairah, Fujairah Customs, Fujairah International Airport, Fujairah Free Zone Authority and Government Companies</li> <li>Department of Industry supervises all investments and industrial projects in the Emirate of Fujairah</li> <li>Chairman of Fujairah National Group</li> </ul> |

|  |  |  |                        |   |   |
|--|--|--|------------------------|---|---|
| Dr. Raja Easa Saleh Al Gurg                  | <ul style="list-style-type: none"> <li>• Deputy Chairperson</li> <li>• Non-Executive Member</li> <li>• Non-Independent Member</li> </ul> | <ul style="list-style-type: none"> <li>• Holds an Honorary Doctorate in Literature from Amity University – India.</li> <li>• Holds an Honorary Doctorate from Queen's University Belfast for economics.</li> <li>• Graduated from the University of Kuwait in English Literature.</li> </ul> | Since 2020<br>3 years  |   | <ul style="list-style-type: none"> <li>• Chairperson and Managing Director of Easa Saleh Al Gurg Group LLC</li> <li>• Vice Chairperson of University of Dubai</li> <li>• Chairperson of the Board of Directors of Al Jalila Foundation</li> <li>• Board Member of Dubai Chambers</li> <li>• Board Member of Dubai Women's Association</li> <li>• Board Member of Emirates Schools Establishment</li> <li>• Board of Directors of Dubai Academic Health Corporation</li> <li>• Board Trustee for Mohammed Bin Rashid University of Medicine and Health Sciences</li> <li>• Board of Trustees for Ajman University</li> <li>• Board of Trustees of Hamdan Bin Mohammed Smart University</li> <li>• Honorary Pro-Chancellor at Heriot Watt University</li> <li>• Advisory Board of Coutts Bank, the wealth division of the Royal Bank of Scotland Group</li> </ul> |
| Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi | <ul style="list-style-type: none"> <li>• Board Member</li> <li>• Non-Executive Member</li> <li>• Independent Member</li> </ul>           | <ul style="list-style-type: none"> <li>• Bachelor in Business Administration &amp; HR, Higher Colleges of Technology</li> </ul>  | Since 2014<br>9 years  | - | <ul style="list-style-type: none"> <li>• Chairman of Al Sharq Health care ( The Health care group of Fujairah National Group)</li> <li>• Chairman of Fujairah National Industries (The industries Group of Fujairah National Group)</li> <li>• Vice-Chairman of Fujairah National Group</li> </ul>  |
| Hussain Mirza Al Sayegh                      | <ul style="list-style-type: none"> <li>• Board Member</li> <li>• Non-Executive Member</li> <li>• Non-Independent Member</li> </ul>       | <ul style="list-style-type: none"> <li>• Master Degree in International Relations - University of Southern California (UK Programme) London;</li> <li>• Bachelor Degree in Business Administration - University of Jordan</li> </ul>   | Since 1992<br>31 years | - | <ul style="list-style-type: none"> <li>• Chairman, Union Cement Co., Ras Al Khaimah</li> <li>• Deputy Chairman, Al Nasr Leisureland, Dubai</li> <li>• Director, Marsh Emirates Insurance Brokerage LLC, Dubai</li> <li>• Board Member of Tricolour Values Investment PSC</li> </ul>   |

|   |  |   |                        |   |  |
|---|--|---|------------------------|---|--|
| Saif Sultan<br>Abdulla Al Salami        | <ul style="list-style-type: none"> <li>• Board Member</li> <li>• Non-Executive member</li> <li>• Non-Independent Member</li> </ul> | <ul style="list-style-type: none"> <li>• Master in Computer Engineering – Florida Institute of Technology, USA</li> <li>• Bachelor in Electrical Engineering, – Florida Institute of Technology, USA</li> </ul>   | Since 1999<br>24 years | Board Member of Fujairah National Insurance Company | <ul style="list-style-type: none"> <li>• Group CEO of Fujairah National Group</li> <li>• Board member of GPS Chemoil LLC FZC</li> </ul>  |
| Dr. Sulaiman<br>Mousa Al Jassim         | <ul style="list-style-type: none"> <li>• Board Member</li> <li>• Non-Executive Member</li> <li>• Non-Independent Member</li> </ul> | <ul style="list-style-type: none"> <li>• PhD in Manpower development from Exeter University, UK</li> <li>• Master in philosophy from Exeter University, UK</li> <li>• Bachelor's degree in public administration sciences, UAE University</li> <li>• Diplomatic Certificate from Oxford University, UK</li> </ul> | Since 1984<br>39 years | -   | <ul style="list-style-type: none"> <li>• Chairman of Al Jassim Trading Group</li> <li>• Chairman of Al Khaleej Investment Education Services</li> <li>• Vice Chairman of Sultan Bin Ali Al Owais Cultural Foundation</li> <li>• Board Member of Abu Dhabi University</li> <li>• Board Member of University of Fujairah</li> <li>• Board Member of Abu Dhabi School of Management</li> <li>• Board Member of UAE Banks Federation</li> </ul>  |
| Mohamed Obaid<br>Bin Majed Al<br>Aleeli | <ul style="list-style-type: none"> <li>• Board Member</li> <li>• Non-Executive Member</li> <li>• Non-Independent Member</li> </ul> | <ul style="list-style-type: none"> <li>• Master Degree in Management Technology, University of Wisconsin, USA</li> <li>• Bachelor Degree in Industrial Technology, University of Wisconsin, USA</li> </ul>  | Since 1993<br>30 years | -   | <ul style="list-style-type: none"> <li>• General Director -Department of Industry and Economy – Government of Fujairah</li> <li>• Member of the Federal Committee for Assortment and Economic Cooperation – Ministry of Economy</li> <li>• Member of the Federal Committee of World Trade Organization – Ministry of Foreign Trade</li> <li>• Member of Federal Committee of Industrial Development in the UAE</li> <li>• Board Member of Arab Company for Poultry Production in Fujairah</li> </ul> |

|                        |  |   |                       |   |   |
|------------------------|--|---|-----------------------|---|---|
| Abdulla Fareed Al Gurg | <ul style="list-style-type: none"> <li>• Board Member</li> <li>• Non-Executive Member</li> <li>• Non-Independent Member</li> </ul> | <ul style="list-style-type: none"> <li>• Master Degree in Management Concepts from Regis University, Denver, Colorado</li> <li>• Bachelor degree in Marketing and Management from the American University of Sharjah</li> </ul> | Since 2014<br>9 years | -   | <ul style="list-style-type: none"> <li>• Chairman of Abdulla Al Gurg Global Investments OPC LLC</li> <li>• CEO of Easa Saleh Al Gurg Group Private Investment</li> <li>• Vice President of Emirates E-Sports Association, Chairman of the Advisory Board and a Member of its Executive Office</li> <li>• Chairman of VITA Investment in Healthcare Enterprises &amp; Development LLC</li> <li>• Board Member of Easa Saleh Al Gurg Group (ESAG)</li> <li>• Board Member of Al Gurg Fosroc</li> <li>• Board Member of Siemens Energy</li> <li>• Board Member of Siemens Healthineers</li> <li>• Board Member of Siemens Industrial</li> <li>• Board Member of Siemens Mobility</li> <li>• Board Member of Al Gurg Smollan</li> <li>• Board Member of Al Gurg Unilever</li> <li>• Board Member of Akso Nobel Decorative Paints</li> </ul> |
| Ahmed Saeed Al Raqbani | <ul style="list-style-type: none"> <li>• Board Member</li> <li>• Non-Executive Member</li> <li>• Independent Member</li> </ul>     | <ul style="list-style-type: none"> <li>• MBA from London Business School (LBS)</li> <li>• B.ENG in Civil Engineering from University College London (UCL)</li> </ul>  | Since 2016<br>7 years | Chairman of Fujairah Building Industries PJSC | <ul style="list-style-type: none"> <li>• Chairman of Fujairah Rock and Aggregate Co</li> <li>• Managing Director of East Coast Group</li> <li>• Board member of Al Taif Investment</li> <li>• Member of the Board of Trustees of University of Fujairah</li> </ul>  |

## B. Female representation on the Board of Directors in 2022

NBF promotes female representation in line with government strategy. Female participation on NBF's Board of Directors is 11 per cent. NBF is proud to have Dr. Raja Easa Saleh Al Gurg as its Deputy Chairperson.

In 2021, the Board appointed Ms. Raheema Ahmed Al Rayssi as the Board Secretary to further strengthen diversity.

**C. Statement of the following:****1. Total remuneration for members of the Board of Directors in 2021**

Board Committees attendance allowances details are as follows:

| Board Committees attendance allowances paid during 2022 for year 2021 | Directors' fees (AED per annum) |
|---|---------------------------------|
| Chairman  | 800,000                         |
| Deputy Chairperson  | 800,000                         |
| Director  | 400,000 (Per Person)            |

**2. Total remuneration for members of the Board of Directors proposed for 2022**

Board Committees attendance allowances details are as follows:

| Board Committees attendance allowances paid during 2023 for year 2022 | Directors' fees (AED per annum) |
|---|---------------------------------|
| Chairman  | 1,000,000                       |
| Deputy Chairperson  | 1,000,000                       |
| Director  | 500,000 (Per Person)            |

**3. Allowances paid to members of the Board of Directors for attending committee sessions in 2022:**

Please refer to the table above

**4. Allowances, salaries or additional fees received by a member of the Board of Directors, other than allowances for attending committees:**

NIL

**D. The number of board meetings held during the fiscal year 2022, with an indication of their dates, attendance for all members, and an indication of the members present by proxy (the names of the members of the board of directors must match what is mentioned in Clause (3A) above).**

During 2022 there were 8 meetings held as follows:

| Date of the meeting | Number of attendees | Attending through proxy | Names of the absent members   |
|---------------------|---------------------|-------------------------|---|
| 25 January 2022     | 8                   | -                       | H.H Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi  |
| 24 March 2022       | 9                   | -                       | -   |
| 26 April 2022       | 8                   | -                       | H.H Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi  |
| 21 June 2022        | 6                   | -                       | H.H Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi<br>Sheikh Hamad Bin Saleh Bin Mohammed Al Sharqi<br>Dr. Sulaiman Mousa Al Jassim |
| 31 August 2022      | 7                   | -                       | H.H Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi<br>Mr. Hussain Mirza Al Sayegh   |
| 28 September 2022   | 6                   | -                       | H.H Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi<br>Sheikh Hamad Bin Saleh Bin Mohammed Al Sharqi<br>Mr. Saif Sultan Al Salami    |
| 26 October 2022     | 7                   | -                       | H.H Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi<br>Mr. Mohammed Obaid Bin Majid Al Aleeli  |
| 23 November 2022    | 9                   | -                       | -   |

- On 25 January 2022: H.H Sheikh Saleh Bin Mohammed Al Sharqi apologised for not attending the meeting and his absence was accepted by the Board.
- On 26 April 2022: H.H Sheikh Saleh Bin Mohammed Al Sharqi apologised for not attending the meeting and his absence were accepted by the Board.
- On 21 June 2022: H.H Sheikh Saleh Bin Mohammed Al Sharqi, Sheikh Hamad Bin Saleh Bin Mohammed Al Sharqi and Dr. Sulaiman Mousa Al Jassim apologised for not attending the meeting and their absences were accepted by the Board.
- On 31 August 2022: H.H Sheikh Saleh Bin Mohammed Al Sharqi and Mr. Hussain Mirza Al Sayegh apologised for not attending the meeting and their absences were accepted by the Board.
- On 28 September 2022: H.H Sheikh Saleh Bin Mohammed Al Sharqi, Sheikh Hamad Bin Saleh Bin Mohammed Al Sharqi and Mr. Saif Sultan Al Salami apologised for not attending the meeting and their absences were accepted by the Board.
- On 26 October 2022: H.H Sheikh Saleh Bin Mohammed Al Sharqi and Mr. Mohammed Obaid Bin Majid Al Aleeli apologised for not attending the meeting and their absences were accepted by the Board.

#### **E. Number of Board resolutions issued by circulation during 2022 with the dates.**

The Board resolved on the following matters by way of circulation which were also ratified at the subsequent board meetings:

1. CBUAE Transmittal Response – on 5 January 2022
2. Pillar III Disclosures and Formal Disclosure Policy– on 9 February 2022
3. Annual Report 2021– 18 February 2022
4. ICAAP and Annual Review of Key Risk Framework and Policies 2022 – on 21 February 2022
5. Appointment of External Auditors 2022– on 23 February 2022
6. Consumer Protection Regulation– on 9 March 2022
7. Q1 2022 Pillar III Disclosure – on 10 May 2022
8. H1 2022 Results – on 26 July 2022
9. Pillar III Disclosures Q3 2022 – on 14 November 2022

#### **F. The duties and functions of the Board of Directors carried out by a member of the board or executive management during 2022 based on delegation from the board, with determination of the duration and validity of the delegation**

The bank has an established delegation of authorities' framework for defining mandate and approval thresholds for the Board and Executive Management. This principally includes credit approval delegations and financial expenditure delegations which are reviewed and approved by the Board annually. The Board provides delegations for financial expenditure to the CEO, who further delegates to relevant staff within the bank. The principal delegated person's name with credit approval delegations are provided below:

| Delegated Person's Name                              | Delegation Validity | Period of Deligation |
|--|---------------------|----------------------|
| <b>Vince Cook</b><br>Chief Executive Officer (CEO)   | Board Approval      | Annually (12months)  |
| <b>Adnan Anwar</b><br>Deputy Chief Executive Officer | Board Approval      | Annually (12months)  |
| <b>Ivor John Dorkin</b><br>Head of Credit (HoC)      | Board Approval      | Annually (12months)  |

## G. Details of transactions that took place with related parties (stakeholders) during 2022

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:

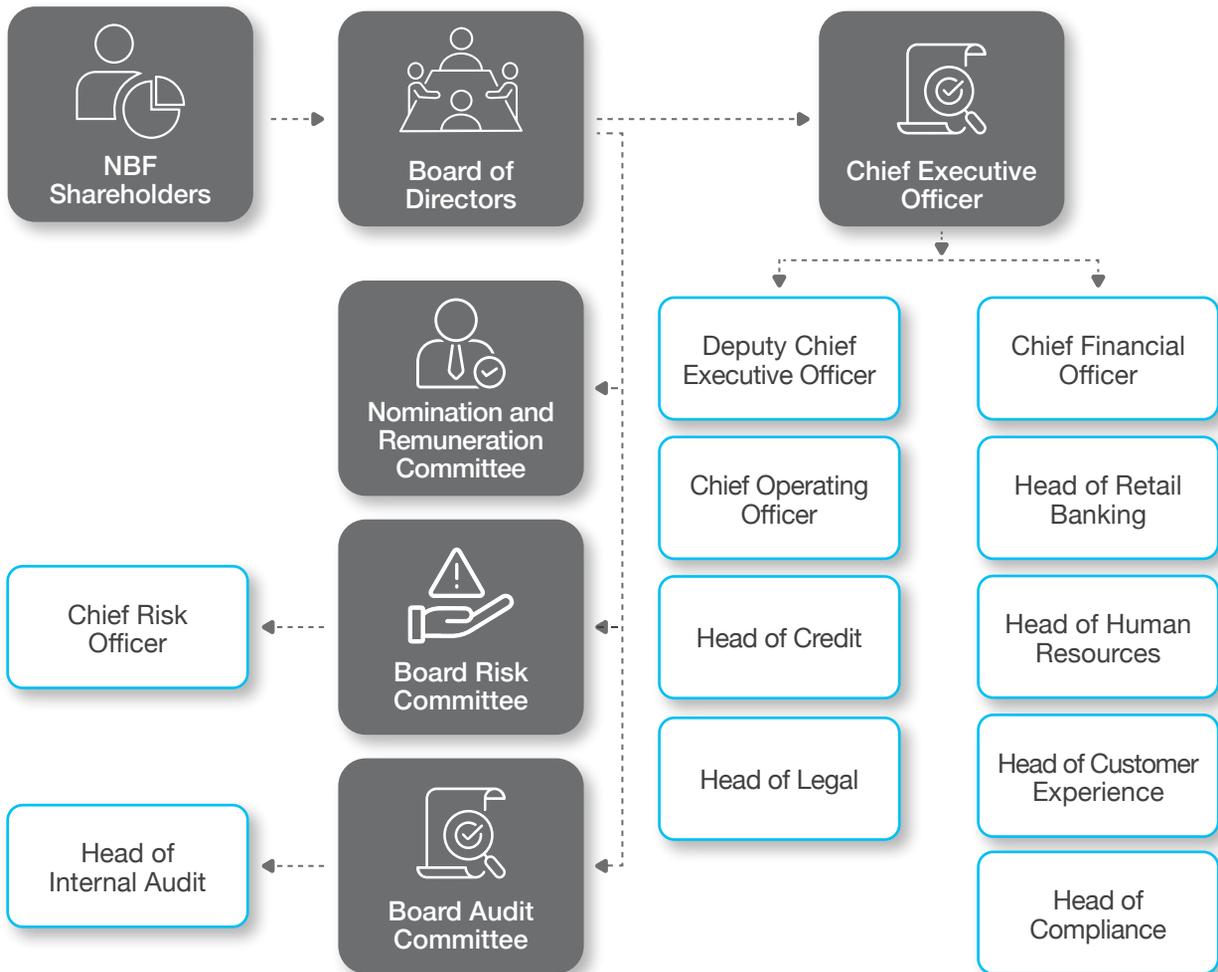
|   | 2022<br>AED'000 | 2021<br>AED'000 |
|---|-----------------|-----------------|
| <b>Statement of financial position items</b>                                |                 |                 |
| Loans and advances and Islamic financing receivables                        | 3,583,048       | 3,534,719       |
| Customer deposits and Islamic customer deposits                             | 8,814,053       | 7,998,573       |
| Investments and Islamic instruments   | 147,650         | 75,449          |
| Acceptances   | 21,095          | 33,988          |
| Tier 1 capital securities   | 293,840         | 293,840         |
| <b>Contingent liabilities</b>   |                 |                 |
| Letters of credit   | 56,093          | 65,669          |
| Financial guarantees and other direct credit substitutes                    | 58,085          | 59,572          |
| Transaction related contingencies   | 269,644         | 276,729         |
| <b>Statement of changes in equity items</b>                                 |                 |                 |
| Tier 1 capital securities coupon paid                                       | 17,264          | 17,264          |
| <b>Statement of income items</b>  |                 |                 |
| Interest income and income from Islamic financing and investment activities | 130,889         | 74,373          |
| Interest expense and distribution to Islamic depositors                     | 183,132         | 128,041         |
| Other income  | 10,619          | 11,449          |
| Operating expenses  | 29,038          | 17,687          |
| <b>Key management compensation</b>  |                 |                 |
| Salaries and other short-term benefits                                      | 24,607          | 21,566          |
| Employee end of service benefits  | 1,249           | 769             |
| Board Committees attendance allowances                                      | 5,500           | 4,400           |

No stage 3 provisions for impairment have been recognised in respect of loans and advances and Islamic financing receivables given to related parties (2021: nil).

The loans and advances and Islamic financing receivables given to related parties amounting to AED 3,583.0 million (2021: AED 3,534.7 million) have been secured against collateral amounting to AED 2,219.0 million (2021: AED 1,862.5 million).

During the year, capital expenditure transactions with related parties amounted to AED 2.2 million (31 December 2021: AED 1.5 million).

## H. The organisational structure of the bank



## I. A detailed statement of senior executives in the first and second levels according to the organisational structure of the bank

| The Designation                           | Date of Joining                    | Total salaries and allowances paid for the year 2022 (AED) | Total bonuses paid for 2022 (AED)* | Any other cash / in-kind bonuses for the year 2022 or future entitlements |
|---|------------------------------------|--|------------------------------------|---|
| Chief Executive Officer                   | 6 Dec 2009                         |  |                                    |   |
| Deputy Chief Executive Officer            | 17 Dec 2005                        |  |                                    |   |
| Chief Financial Officer                   | 18 July 2022                       |  |                                    |   |
| Chief Operations Officer                  | 12 Aug 2012                        |  |                                    |   |
| Chief Risk Officer                        | 5 Sep 2017                         | 25,855,638.00  | 1,032,407.00                       | -   |
| Senior Executive Officer, Fujairah Region | 15 May 1994                        |  |                                    |   |
| Head of Retail Banking                    | From 9 Feb 2014 till 31 March 2022 |  |                                    |   |
| Head of Human Resources                   | 10 Oct 2010                        |  |                                    |   |
| Head of Compliance                        | 27 Sep 2020                        |  |                                    |   |
| Head of Credit                            | 21 May 2014                        |  |                                    |   |

\*This reflects bonus for the year 2021 paid in 2022

## 4. EXTERNAL AUDITOR:

### A. Presenting an overview of the bank's auditor to the shareholders.

PricewaterhouseCoopers ("PwC") is a multinational professional services network and one of the largest audit firms in the world.

PwC was appointed as external auditors for the bank and its subsidiaries by the shareholders at the Annual General Assembly Meeting (AGAM) held on 24 March 2022.

### B. A statement of the fees and costs of the audit or the services provided by the external auditor

|   |  |
|---|--|
| Name of the audit office and name of the partner auditor  | Audit office - PwC / Partner – Stuart Scoular  |
| Number of years spent as bank's External Auditors'  | One year   |
| Number of years the partner auditor spent in auditing the Bank's accounts   | One year   |
| Auditing fees for the year 2022   | AED 545,000 plus value added tax (VAT)   |
| Audit related services fees for the year 2022 [XBRL, review of selected returns of Central Bank of the UAE, annual audit of NBF Financial services FZC (subsidiary of NBF) and procedures in respect of pillar 3 disclosures] | AED 145,190 plus value added tax (VAT)   |
| Total audit and related services fees for the year 2022   | AED 690,190 plus value added tax (VAT)   |
| Fees and costs for special services other than auditing the financial statements for the year 2022 if any, and in the absence of any other fees, this is expressly stated   | AED 2.19 million plus value added tax (VAT) – Paid to PwC Technology Academy as part of the Bank's CSR initiatives |
| Details and nature of other services provided (if any), and in the absence of other services, this is explicitly stated   | None   |
| A statement of the other services that an another external auditor rather than the Bank's accounts auditor provided during 2022 (if any), and in the absence of another external auditor, this is explicitly stated           | Auditor's Name: None<br>Details of the services provided: None   |

### C. A statement clarifying the reservations that the bank's auditor has included in the interim and annual financial statements for the year 2022, and in the absence of any reservations, this must be explicitly stated:

The Bank's auditors PwC, has provided unmodified opinions on all interim and annual consolidated financial statements. Excerpts of opinions from interim and Annual Accounts 2022 are provided below:

#### Interim:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the period ending 31 March 2022, 30 June 2022 and 30 September is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

#### Annual:

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Bank of Fujairah PJSC (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows.

## 5. THE AUDIT COMMITTEE

### A. Acknowledgment by the Chairman of the Audit Committee of his responsibility for the committee system in the bank and for his review of his work mechanism and to ensure its effectiveness

The Committee fulfilled its obligations and responsibilities in line with the mandate set out by the Board. The Committee received and considered reports and recommendations from the internal audit and the external auditors. Further, it received and considered any reports issued by the regulatory authorities and made recommendations to the Board in respect of financial reporting, systems of internal control and both internal and external audit processes.

## B. Names of the members of the Audit Committee, and a statement of its functions and tasks assigned to it

The Audit Committee of the Board consists of four Board members and an independent professional as follows:

| Name  | Designation                     |
|---|---------------------------------|
| Ahmed Saeed Al Raqbani                        | Chairman                        |
| Sheikh Hamad Bin Saleh Bin Mohammed Al Sharqi | Member                          |
| Saif Sultan Al Salami                         | Member                          |
| Abdulla Fareed Al Gurg                        | Member                          |
| T N Sekhar                                    | Independent Professional Member |

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 auditors 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 annual financial statements, to monitor that such financial statements have been prepared in accordance with proper accounting rules and practices
- Reviewing the group's internal control systems for effectiveness
- Receiving key audit reports and ensuring that senior management is taking necessary corrective action in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other problems identified by auditors and other control functions and
- Reviewing all internal audit reports concerning any investigation or significant fraud that occurs within the group

## C. The number and dates of the meetings held by the Audit Committee during 2022 with dates to discuss related issues to the financial statements and any other matters, and a statement of the number of personal attendance of members at the meetings held

| Date of the meeting | Board of Directors in attendance   | Management Team attendance  | Total attendance   |
|---------------------|--|---|--|
| 20 January 2022     | 1. Ahmed Saeed Al Raqbani<br>2. Sheikh Hamad Bin Saleh Bin Mohd Al Sharqi<br>3. Saif Sultan Al Salami<br>4. Abdulla Fareed Al Gurg<br><br>T. N. Sekhar - Independent Professional Member | 1. Vince Cook<br>2. Adnan Anwar<br>3. Balaji Krishnamurthy<br><br>For Ernst and Young session only:<br>1. Ali Asif Sheikh<br><br>Internal Audit:<br>1. Temi Labor<br>2. Mohammed Shaju<br><br>External Audit - Ernst and Young:<br>1. Ben Wareing<br>2. Tanai Rai   | • Board of Directors: 4 (count)<br>• Independent Professional Member: 1 (count)<br>• Management: 4 (count)<br>• Internal Audit: 2 (count)<br>• External Audit: 2 (count) |
| 20 April 2022       | 1. Ahmed Saeed Al Raqbani<br>2. Sheikh Hamad Bin Saleh Bin Mohd Al Sharqi<br>3. Saif Sultan Al Salami<br>4. Abdulla Fareed Al Gurg<br><br>T. N. Sekhar - Independent Professional Member | 1. Vince Cook<br>2. Adnan Anwar<br>3. Balaji Krishnamurthy<br><br>For PricewaterhouseCoopers session only:<br>1. Ali Asif Sheikh<br><br>Internal Audit:<br>1. Temi Labor<br>2. Mohammed Shaju<br><br>External Audit – PricewaterhouseCoopers (PWC):<br>1. Ashruff Jamall<br>2. Shereen Osman<br>3. Stuart Scoular | • Board of Directors: 4 (count)<br>• Independent Professional Member: 1 (count)<br>• Management: 4 (count)<br>• Internal Audit: 2 (count)<br>• External Audit: 3 (count) |

| Date of the Meeting | Board of Directors in Attendance   | Management Team Attendance   | Total attendance  |
|---------------------|--|--|---|
| 26 July 2022        | <ol style="list-style-type: none"> <li>Ahmed Saeed Al Raqbani</li> <li>Sheikh Hamad Bin Saleh Bin Mohd Al Sharqi</li> <li>Saif Sultan Al Salami</li> <li>Abdulla Fareed Al Gurg</li> </ol> <p>T. N. Sekhar -Independent Professional Member</p>  | <p>For Agenda items no 1-5:</p> <ol style="list-style-type: none"> <li>Vince Cook</li> <li>Adnan Anwar</li> <li>Balaji Krishnamurthy</li> <li>Brian Mulholland</li> </ol> <p>For PricewaterhouseCoopers session only:</p> <ol style="list-style-type: none"> <li>Ali Asif Sheikh</li> </ol> <p>Permanent Invitee:</p> <ol style="list-style-type: none"> <li>Balwant Bains</li> </ol> <p>External Audit – PricewaterhouseCoopers (PWC):</p> <ol style="list-style-type: none"> <li>Ashruff Jamall</li> <li>Shereen Osman</li> <li>Stuart Scoular</li> </ol>  | <ul style="list-style-type: none"> <li>Board of Directors: 4 (count)</li> <li>Independent Professional Member: 1 (count)</li> <li>Management: 5 (count)</li> <li>Internal Audit: 1 (count)</li> <li>External Audit: 3 (count)</li> </ul>          |
| 30 September 2022   | <ol style="list-style-type: none"> <li>Ahmed Saeed Al Raqbani</li> <li>Sheikh Hamad Bin Saleh Bin Mohd Al Sharqi</li> <li>Saif Sultan Al Salami</li> <li>Abdulla Fareed Al Gurg</li> </ol> <p>T. N. Sekhar -Independent Professional Member</p>  | <p>Permanent Invitee:</p> <ol style="list-style-type: none"> <li>Balwant Bains</li> </ol>  | <ul style="list-style-type: none"> <li>Board of Directors: 4 (count)</li> <li>Independent Professional Member: 1 (count)</li> <li>Internal Audit: 1 (count)</li> </ul>  |
| 19 October 2022     | <ol style="list-style-type: none"> <li>Ahmed Saeed Al Raqbani</li> <li>Sheikh Hamad Bin Saleh Bin Mohd Al Sharqi</li> <li>Saif Sultan Al Salami</li> <li>Abdulla Fareed Al Gurg</li> </ol> <p>T. N. Sekhar -Independent Professional Member</p>  | <p>For Agenda items no 1-4:</p> <ol style="list-style-type: none"> <li>Vince Cook</li> <li>Adnan Anwar</li> </ol> <p>Permanent Invitee:</p> <ol style="list-style-type: none"> <li>Balwant Bains</li> </ol> <p>For PricewaterhouseCoopers session only:</p> <ol style="list-style-type: none"> <li>Brian Mulholland</li> <li>Balaji Krishnamurthy</li> <li>Ali Asif Sheikh</li> </ol> <p>For Agenda item no 8:</p> <ol style="list-style-type: none"> <li>Jonathan Falconer</li> </ol> <p>External Audit – PricewaterhouseCoopers (PWC):</p> <ol style="list-style-type: none"> <li>Ashruff Jamall</li> <li>Shereen Osman</li> <li>Stuart Scoular</li> </ol> | <ul style="list-style-type: none"> <li>Board of Directors: 4 (count)</li> <li>Independent Professional Member: 1 (count)</li> <li>Management: 6 (count)</li> <li>Internal Audit: 1 (count)</li> <li>External Audit: 3 (count)</li> </ul>          |
| 9 December 2022     | <ol style="list-style-type: none"> <li>Ahmed Saeed Al Raqbani</li> <li>Sheikh Hamad Bin Saleh Bin Mohd Al Sharqi</li> <li>Saif Sultan Al Salami</li> <li>Abdulla Fareed Al Gurg</li> </ol> <p>T. N. Sekhar - Independent Professional Member</p> | <p>For Agenda items no 1-9:</p> <ol style="list-style-type: none"> <li>Vince Cook</li> <li>Adnan Anwar</li> </ol> <p>Permanent Invitee:</p> <ol style="list-style-type: none"> <li>Balwant Bains</li> </ol> <p>For Agenda item no 8:</p> <ol style="list-style-type: none"> <li>Jonathan Falconer</li> </ol> <p>For Agenda item no 9:</p> <ol style="list-style-type: none"> <li>Mohamed ElKdousy</li> </ol>   | <ul style="list-style-type: none"> <li>Board of Directors: 4 (count)</li> <li>Independent Professional Member: 1 (count)</li> <li>Management: 3 (count)</li> <li>Internal Audit: 1 (count)</li> <li>Internal Shari'ah Audit: 1 (count)</li> </ul> |

## 6. NOMINATION AND REMUNERATION COMMITTEE

### A. A declaration from the Chairman of the Nominations and Remuneration Committee of his responsibility for the committee's system in the bank and for his review of his work mechanism and to ensure its effectiveness

The Committee fulfilled its obligations and responsibilities in line with the mandate set out by the Board.

The Committee principally focused on the bank's succession planning of senior management, appointment of Internal Sharia'h Supervision Committee, adoption of the new corporate governance regulations of the Central Bank of the UAE, staff rewards, performance of the Board and ongoing education and development for the Board members.

### B. Names of the members of the Nomination and Remuneration Committee, and a statement of its functions and tasks assigned to it

The Nomination and Remuneration Committee of the Board comprises three board members as follows:

| Name                                    | Designation |
|---|-------------|
| H.H Sheikh Saleh Bin Mohammed Al Sharqi | Chairman    |
| Dr. Raja Easa Saleh Al Gurg             | Member      |
| Saif Sultan Al Salami                   | 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

### C. The number of meetings held by the committee during 2022 and their dates, with an indication of attendance

| Date of the meeting | Board of Directors in attendance  | Management Team attendance      |
|---------------------|---|---------------------------------|
| 24 March 2022       | 1. H.H. Sheikh Saleh Bin Mohammed Al Sharqi<br>2. Dr. Raja Easa Saleh Al Gurg<br>3. Saif Sultan Al Salami | 1. Vince Cook<br>2. Adnan Anwar |
| 29 June 2022        | 1. H.H. Sheikh Saleh Bin Mohammed Al Sharqi<br>2. Dr. Raja Easa Saleh Al Gurg<br>3. Saif Sultan Al Salami | 1. Vince Cook<br>2. Adnan Anwar |
| 8 September 2022    | 1. H.H. Sheikh Saleh Bin Mohammed Al Sharqi<br>2. Dr. Raja Easa Saleh Al Gurg<br>3. Saif Sultan Al Salami | 1. Vince Cook<br>2. Adnan Anwar |
| 23 November 2022    | 1. H.H. Sheikh Saleh Bin Mohammed Al Sharqi<br>2. Dr. Raja Easa Saleh Al Gurg<br>3. Saif Sultan Al Salami | 1. Vince Cook<br>2. Adnan Anwar |

## 7. A COMMITTEE TO FOLLOW UP AND SUPERVISE THE TRANSACTIONS OF INSIDERS

### A. Acknowledgment by the committee chairman of his responsibility for the committee system in the bank and for his review of his work mechanism and to ensure its effectiveness

The principal stakeholders include Board of Directors, key management, personnel and related staff member of the bank.

Process for insider transactions is in place for regular reviews and changes from enhance monitoring and control prospective which operated effectively during 2022. The process is administered by the bank's Investor Relations Officer in line with the Insider policy approved by the Board.

## B. Names of the members of the committee to follow up and supervise the transactions of the insiders, and a statement of its functions and tasks assigned to it

Not applicable, please refer to comments in section 7A, 7C.

## C. A summary of the committee's work report during the year 2022 (in the event that the committee is not formed, the reasons for this will be explained)

The dedicated Committee has not been formed for administering insider trading and requirements are adhered through the bank's established governance framework and process. The Board are responsible for establishing and communicating corporate culture and values through measures including, but not limited to, a written code of conduct, a conflicts of interest policy, a whistleblowing policy mechanism, an insider trading policy, and a strong internal control environment. The bank limits and manages access to price sensitive information and has also established the process to report all relevant stakeholders to Insider trading list. In addition to regular monitoring, the bank has also embedded insider trading as part of the periodic compliance declaration program.

## 8. ANY OTHER COMMITTEE OR COMMITTEES APPROVED BY THE BOARD OF DIRECTORS

### A. Acknowledgment by the committee chairman of his responsibility for the committee system in the bank and for his review of his work mechanism and to ensure its effectiveness

The Board has established Board Risk Committee to enhance oversight with formal Charter in place.

### B. Name of the committee

Board Risk Committee

### C. Names of the committee members, and a statement of its functions and tasks assigned to it

The Board Risk Committee consists of four Board members and an independent professional as follows:

| Name                                      | Designation                     |
|---|---------------------------------|
| Shaikh Hamad Bin Saleh Bin Mohd Al Sharqi | Chairman                        |
| Saif Sultan Al Salami                     | Member                          |
| Mohamed Obaid Bin Majed Al Aleeli         | Member                          |
| Abdulla Fareed Al Gurg                    | Member                          |
| T N Sekhar                                | Independent Professional Member |

It oversees the risks inherent to group business, control processes, risk management and compliance. The CEO, Deputy CEO (DCEO), Chief Risk Officer (CRO) Head of Compliance 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

#### D. The number of meetings held by the committee in 2022 and their dates, with an indication of attendance

| Date of the Board Meeting    | Board of Directors in attendance  | Management Team   |
|------------------------------|---|---|
| 2 February 2022              | 1. Sheikh Hamad Bin Saleh Al Sharqi<br>2. Saif Sultan Al Salami<br>3. Mohamed Obaid Bin Majed Al Al Aleeli<br>4. Abdulla Fareed Al Gurg<br><br>T N Sekhar - Independent Professional Member   | 1. Vince Cook<br>2. Adnan Anwar<br>3. Stuart Wright<br>4. Jonathan Falconer                         |
| 26 May 2022 (by Circulation) | (by Circulation)  | -   |
| 24 August 2022               | 1. Sheikh Hamad Bin Saleh Al Sharqi<br>2. Saif Sultan Al Salami<br>3. Mohamed Obaid Bin Majed Al Al Aleeli<br>4. Abdulla Fareed Al Gurg<br><br>T N Sekhar - Independent Professional Member   | 1. Vince Cook<br>2. Adnan Anwar<br>3. Brian Mullholland<br>4. Stuart Wright<br>5. Jonathan Falconer |
| 7 December 2022              | 1. Sheikh Hamad Bin Saleh Al Sharqi<br>2. Saif Sultan Al Salami<br>3. Mohamed Obaid Bin Majed Al Al Aleeli<br>4. Abdulla Fareed Al Gurg<br>5. Ahmed Saeed Al Raqbani<br>(Chairman of Board Audit Committee)<br><br>T N Sekhar - Independent Professional Member | 1. Vince Cook<br>2. Adnan Anwar<br>3. Brian Mullholland<br>4. Stuart Wright<br>5. Jonathan Falconer |

## 9. THE INTERNAL CONTROL SYSTEM

### A. Acknowledgment by the Board of its responsibility for the bank's internal control system and for its review of its work mechanism and to ensure its effectiveness

The NBF 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 NBF 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. NBF is committed to industry best practice compliance and AML standards, and to the protection of the UAE's financial system. We have in place a dedicated compliance function in addition to the operational risk management function to further enhance our control mechanism. To identify areas for ongoing improvement and supervision, dedicated Compliance and Operational Risk Committees are in place, which have senior management representatives from all departments.

The NBF Group has a system of internal controls adequate to enable the preparation of accurate consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), the applicable provisions of the Articles and Memorandum of Association and the UAE Federal Law No. (2) of 2015. NBF acknowledges the responsibility for the design, implementation and maintenance of internal controls.

The Board receives regular reporting on the bank's risk profile and is able to engage management directly or through the independent control functions regarding any matter of concern.

Further, the role of the Internal Audit Function within the NBF 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. To perform its role effectively, Internal Audit has organisational independence from management, to enable unrestricted evaluation of management activities and personnel.

**B. The name of the department manager, his qualifications, and the date of appointment**

| Name  | Qualifications   | Date of Joining |
|---|------------------|-----------------|
| <b>Stuart Wright</b><br>Chief Risk Officer (Acting) | Bachelors in Law | 5-Sep-2017      |

**C. Compliance Officer Name, qualifications and date of appointment**

| Name   | Qualifications | Date of Joining |
|--|----------------|-----------------|
| <b>Jonathan James Falconer</b><br>Head of Compliance | Masters in Law | 27-Sep-2020     |

**D. The Internal Audit**

| Name   | Qualifications  | Date of Joining |
|--|---|-----------------|
| <b>Balwant Bains</b><br>Head of Internal Audit | Bachelors of Business studies<br>and Certified Internal Auditor | 30-May-2022     |

**E. How the Internal Control Department deals with any major problems in the bank or those that were disclosed in the annual reports and accounts (in the absence of major problems, it must be mentioned that the bank did not face any problems)**

As mentioned in part A, in addition that the bank did not face any major problems.

**F. Number of Reports issued by the Internal Control Department of the Board**

In addition to various presentations and reporting to the Board by Risk Management and Compliance functions, Internal Audit issued 20 reports and 2 process notes to the Board and Board Audit Committee in 2022.

**10. DETAILS OF VIOLATIONS COMMITTED IN 2022, THEIR REASONS, AND HOW TO DEAL WITH THEM AND AVOID THEIR RECURRENCE IN THE FUTURE**

There were no material violations observed in 2022. For all non-lending losses the bank follows the process approved by the Board in its Operational Risk Policy. Investigations are carried out by Risk Management to identify the root cause of the incident and where it is appropriate, changes to standard processes and control processes are made to prevent reoccurrence.

**11. CASH AND IN-KIND CONTRIBUTIONS MADE BY THE BANK DURING 2021 IN DEVELOPING THE LOCAL COMMUNITY AND PRESERVING THE ENVIRONMENT**

Creating a positive impact on the environment and our community is a cornerstone of the bank's corporate culture and values and NBF has pledged to be a consistent force for improvement and change. Throughout the year a number of initiatives were launched to continue empowering our communities, looking after the planet and safeguarding the environment and a total of AED 5.7 mn investment was spent in 2022. To name a few, NBF continued to provide sponsorship to the seafarers support group, Angel Appeal, and has an ongoing partnership with Fujairah Welfare Association to help uplift communities in the Fujairah region.

The sixth NBF Fujairah Run was held in November 2022 with a record participation of 2,270 runners. Over 500 artists from across the UAE submitted artwork to the second NBF Annual Art Competition following the 'environmental and sustainability' theme. NBF's sponsorship of the International Envirocities Conference 2022 highlighted the bank's commitment to supporting sustainable, smart and resilient cities in the UAE. Held in Fujairah under the patronage of His Highness Sheikh Hamad bin Mohammad Al Sharqi, Supreme Council Member and Ruler of The Emirate of Fujairah, the 11th edition of the annual conference was held with the strategic objective of furthering knowledge of global strategies, policies and laws of smart, sustainable cities. To read more about the bank's CSR and sustainability efforts, please refer to 'NBF ESG Report 2022' on nbfae.

**12. GENERAL INFORMATION****A. A statement of the bank's share price in the market (closing price, highest price, and lowest price) at the end of each month during the fiscal year 2022**

NBF share prices for the year 2022 were as follow:

| Month          | Closing price | Highest price | Lowest price |
|----------------|---------------|---------------|--------------|
| January 2022   | 5             | 5             | 5            |
| February 2022  | 5             | 5             | 5            |
| March 2022     | 4.99          | 4.99          | 4.60         |
| April 2022     | 4.99          | 4.99          | 4.99         |
| May 2022       | 4.99          | 4.99          | 4.99         |
| June 2022      | 4.99          | 4.99          | 4.99         |
| July 2022      | 4.99          | 4.99          | 4.99         |
| August 2022    | 4.99          | 4.99          | 4.99         |
| Spetember 2022 | 4.99          | 4.99          | 4.99         |
| October 2022   | 4.99          | 4.99          | 4.99         |
| November 2022  | 4.99          | 4.99          | 4.99         |
| December 2022  | 4.99          | 4.99          | 4.99         |

**B. A statement of the comparative performance of the bank's share with the general market index and the sector index to which the bank belongs during the year 2022**

| Bank Sector         | Price to Book Ratio | Price to Earnings Ratio |
|---------------------|---------------------|-------------------------|
| NBF (Dec 2022)      | 2.27                | 37.68                   |
| Industry (Sep 2022) | 2.22                | 19.17                   |

**C. A statement of the distribution of shareholders' ownership as at 31 December 2022 (individuals, companies, governments) classified as follows: local, Gulf, Arab, and foreign**

| Shareholder classification | Percentage of shares owned |           |             |       |
|----------------------------|----------------------------|-----------|-------------|-------|
|                            | Individuals                | Companies | Governments | Total |
| Local                      | 6.27%                      | 38.24%    | 55.49%      | 100%  |
| Gulf                       | -                          | -         | -           | -     |
| Arab                       | -                          | -         | -           | -     |
| Foreign                    | -                          | -         | -           | -     |
| Total                      | 6.27%                      | 38.24%    | 55.49%      | 100%  |

**D. A statement of the shareholders who own 5 per cent or more of the bank's capital as on December 31, 2022**

| Name  | Number of shares owned | The percentage of shares owned from the bank's capital |
|---|------------------------|--|
| Department of Industry & Economy-Government of Fujairah | 817,254,658            | 40.86%   |
| Easa Saleh Al Gurg LLC                                  | 429,723,768            | 21.49%   |
| Investment Corporation of Dubai                         | 174,749,424            | 8.74%  |
| Fujairah Investment Company                             | 101,967,111            | 5.10%  |

**E. A statement of the method of distributing the shareholders according to the size of ownership as at 31 December 2022**

| Shares ownership (share)            | Number of shareholders | Number of shares owned | The percentage of shares owned in the capital |
|-------------------------------------|------------------------|------------------------|---|
| Less than 50,000                    | 50                     | 962,513                | 0.05%   |
| 50,000 to less than 500,000         | 46                     | 8,754,783              | 0.44%   |
| From 500,000 to less than 5,000,000 | 29                     | 53,100,659             | 2.7%  |
| More than 5,000,000                 | 26                     | 1,937,182,045          | 96.9%   |

**F. A statement of the procedures that have been taken regarding investor relations controls, with a statement of the following**

|   |   |
|---|---|
| Name of the Investor Relations Officer                                    | Shahrazad Hamroun- Sr. Manager – Financial Control & Investor Relations.                                  |
| Contact information with Investor Relations                               | Tel: 09-2029210 , 09-2029208<br>Fax: 09-2029403<br>e-mail: NBF-investorrelations@nbf.ae, s.hamroun@nbf.ae |
| The electronic link for the investor relations page on the Bank's website | <a href="https://nbf.ae/en/about-us/investor-relations">https://nbf.ae/en/about-us/investor-relations</a> |

The procedures that have been taken regarding investor relations controls:

- Appointment of an official officer responsible for all tasks related to the Investor Relations Management
- Investor Relations page on the Bank's website, which includes: Contact information with Investor Relations (email - phone - mobile - fax)
- Hosting of quarterly and annual consolidated financial statements on the ADX and Group's website and sharing these with SCA
- Establishing 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
- Availability of uncollected dividends information and the mechanism of collecting it by the shareholders
- Publication of the annual report and
- Investor presentations

### G. A statement of the special decisions that were presented at the General Assembly held during the year 2022 and the measures taken in their regard

In the Annual General Assembly Meeting held on 24 March 2022 there was no agenda for special resolutions.

### H. The name of the reporter for board meetings and the date of his appointment

| Name                        | Date of appointment |
|-----------------------------|---------------------|
| Ms. Raheema Ahmed Al Rayssi | 7 June 2021         |

### I. A detailed statement of the material events and important disclosures that the bank encountered during the year 2022

The bank's material events and important disclosures related to its quarterly and annual earnings were announced in the market in accordance with the requirements of SCA and ADX.

### J. A statement of the transactions carried out by the bank during the year 2022 that are equal to 5 per cent or more of the bank's capital

| Statement of Financial position line item            | AED mn    | # of transactions |
|--|-----------|-------------------|
| Loans and advances and Islamic financing receivables | 334.20    | 1                 |
| Due from banks and financial institutions            | 26,954.63 | 55                |
| Customer deposits and Islamic customer deposits      | 9,345.99  | 21                |

### K. Statement of the percentage of Emiratisation in the bank by the end of 2020, 2021 and 2022

The bank is fully committed towards the development and promotion of Emiratisation. The bank's Emiratisation percentage for year ended 31 December 2020 was 45.14 per cent, for year ended 31 December 2021 was 46.52 per cent and for year ended 31 December 2022 was 40.2 per cent.

### L. A statement of the innovative projects and initiatives undertaken by the bank or under development during the year 2022

The bank as part of its digitalisation strategy has been implementing a number of innovative projects and initiatives to service the needs of the customers. Please refer to the Directors' Report on page 7 for further details.

#### Sheikh Saleh Bin Mohammed Al Sharqi

Chairman of the Board of Directors and Chairman of the Nomination and Remuneration Committee  
25 January 2023



#### Ahmed Saeed Al Raqbani

Chairman of the Board Audit Committee  
25 January 2023



#### Stuart Wright

Chief Risk Officer (Acting)  
25 January 2023



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

NBF is committed to engaging with and helping the community, protecting the environment and developing local talent.



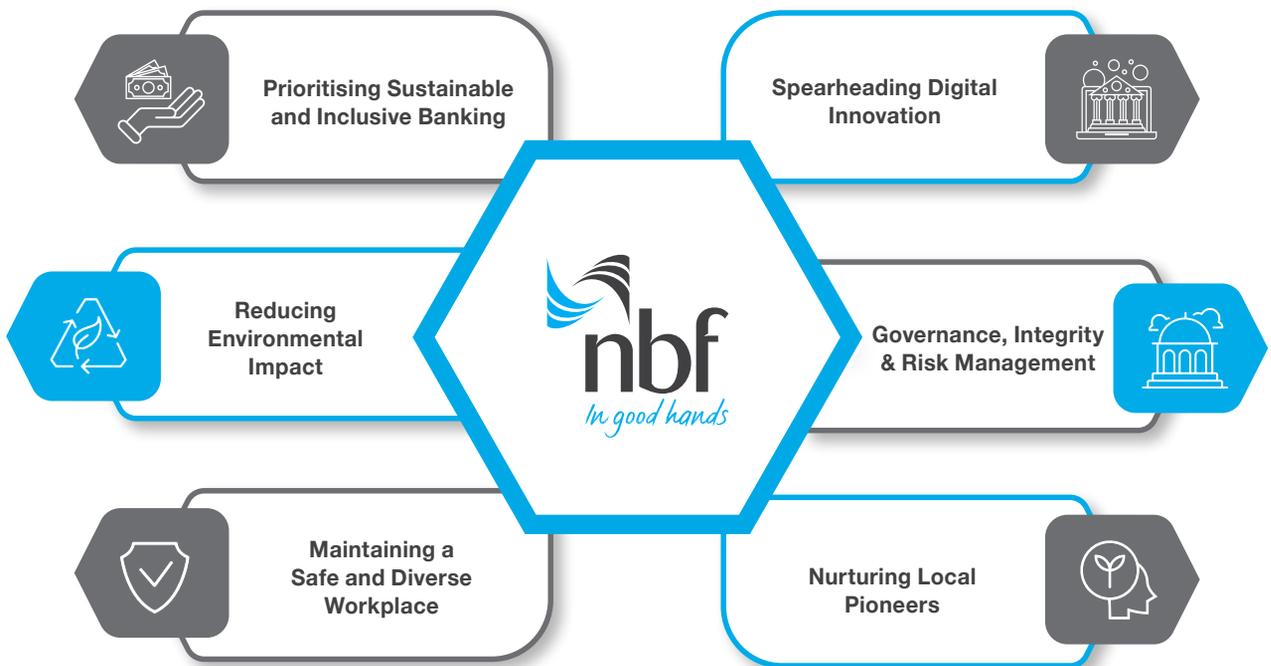
## EMBRACING SUSTAINABILITY

As a responsible corporate citizen, NBF is committed to engaging with and helping the community, protecting the environment and developing local talent. Creating a positive impact on the environment and our community is a cornerstone of the bank's corporate culture and values and NBF has pledged to be a consistent force for improvement and change. It is committed to allocating resources towards initiatives that expand and accelerate sustainable practices in support of both the 'We the UAE 2031' strategy and the 'UAE Energy Strategy 2050'.

## OUR SUSTAINABILITY APPROACH AND FRAMEWORK

By aligning itself with the sustainability pillars of the UAE Ministry of Climate Change and Environment, the bank conducted a comprehensive assessment to identify the issues that matter most to the organisation and its stakeholders. An evaluation of the business against global and national sustainability ambitions was also carried out. The outcome is a comprehensive strategy set around a sustainability framework with quantifiable KPIs which will help the bank to make a strong contribution to the UAE's growth and sustainable development.

Built around six key pillars, the sustainability framework is aligned with the bank's corporate mission and values, the priorities of investors, stakeholder interests, national goals, and global standards and frameworks.



## PRIORITISING SUSTAINABLE AND INCLUSIVE BANKING

NBF aims to use its financial expertise and products to help its clients become more sustainable, mitigate climate change, and protect the environment. The bank's existing ESG-compliant portfolio comprises around 5.6 per cent of its total portfolio. Using the Bloomberg classification based on issuer information, 68 per cent of the ESG bonds held in NBF's portfolio are in the green category, 23 per cent are in the sustainable category, and 9 per cent in social.

The bank has a particular focus on increasing financial literacy, and promotes financial inclusion to better support its clients. In partnership with C3, it offers payroll cards to employees who do not have a bank account and a salary of less than AED 5,000.

In 2022, 6.2 per cent of all new accounts were opened by first-time account holders. In addition, NBF implemented service improvement initiatives in the year and is committed to engaging with and supporting local communities. The bank made a total community investment of AED AED 5.69 million in 2022, while its spend with local suppliers reached 80 per cent.

## REDUCING ENVIRONMENTAL IMPACT & ENERGY CONSUMPTION

In a bid to reduce its carbon footprint and conserve natural resources, NBF is committed to conducting its operations and business activities responsibly. The bank engaged with the Emirates Environmental Group (EEG) to initiate various recycling initiatives throughout the year. A BPM system for the opening of accounts and the processing of documents was also introduced to reduce the use of paper. NBF is also a supporter of initiatives that promote awareness. It collaborated with the EEG to organise an urban afforestation activity under the 'For Our Emirates We Plant' program and continued to support the preservation of the Wadi Wurayah National Park in Fujairah. It also partners with Emirates Nature-WWF to help with conservation work in the Hajar Mountains.

NBF is determined to increase energy efficiency and water conservation. Numerous initiatives throughout the year led to power savings of 1033789 KW/year; cost savings of AED 454,867 a year; and a reduction in carbon emissions by 856,750 Kg a year. In addition, water consumption intensity decreased by 20 per cent from 14.32 cubic metres per employee in 2021 to 11.46 cubic metres per employee in 2022. The bank is also exploring the provision of personal loans for customers' retrofitting of their homes with solar panels. Preliminary discussions and meetings have taken place and the bank will progress further on this initiative in the first quarter of 2023.

## COMMUNITY ENGAGEMENT

Most of the bank's charitable and philanthropic initiatives and donations are centred in Fujairah and are chosen by the CSR Committee. To name a few, NBF continued to provide sponsorship to the seafarers support group, Angel Appeal, and has an ongoing partnership with Fujairah Welfare Association to help uplift communities in the Fujairah region.

The sixth NBF Fujairah Run was held in November 2022 with a record participation of 2,270 runners. Over 500 artists from across the UAE submitted artwork to the second NBF Annual Art Competition, which was based on an 'environmental and sustainability' theme. An internal football activity for staff was held in November; the bank participated in Breast Cancer Awareness Month; and staff town halls and a blood donation drives were held, too.

Employee and customer well-being remained of paramount importance. Various initiatives with regards to people of determination were implemented. Consumer Protection Regulations (CPR) were also introduced. This brought about significant improvement in the understanding of products and services offered by the bank for its consumers.

## MAINTAINING A SAFE AND DIVERSE WORKPLACE

The bank seeks to create and maintain a work environment that is inclusive of and respectful to every individual, regardless of their age, gender, ethnicity, religion, or disability. In 2022, NBF was pleased to record zero fatalities and recordable injuries for employees and contractors for the third year in succession. The bank conducted 19 health and safety audits, the same number as in 2021, and provided 178 hours of health and safety training to 155 employees – an increase of 65 from the previous year.

The bank believes that diversity and inclusion in the workplace brings benefits for all, and NBF has a diversity and inclusion policy that covers equal opportunity and non-discrimination. In 2022, female employment stood at 44 per cent.

### 2022 ESG HIGHLIGHTS



**44%**  
full-time females

**40%**  
full-time nationals

**LENDING**



**AED 621 million** lending to socially important sectors

**23%** of the banks lending is to SME's

**DIGITAL**



**27%** increase in digital transactions

**78%** digitally active customers

**REDUCTION**



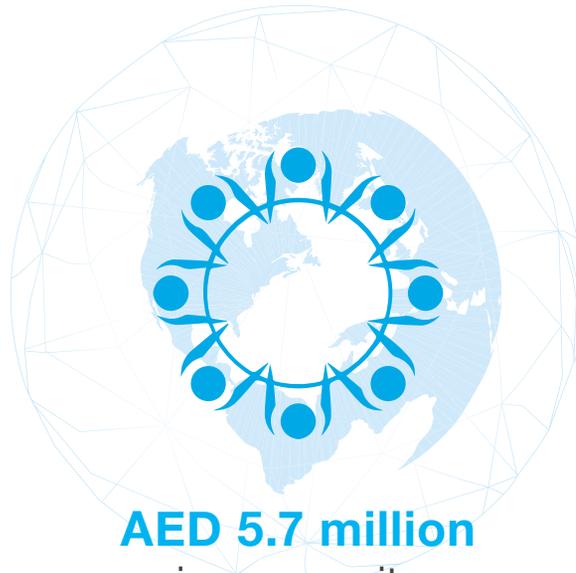
**20%↓** in water consumption intensity



**5.6%** of NBF's Investment portfolio is ESG-compliant



**32.3%** of non-hazardous waste recycled



**AED 5.7 million** in community investments in 2022



Replaced old lights with new, energy-efficient **LED LIGHTING**



**AED 321 million** ESG linked investments

**ZERO**



Data breaches



Employee and contractor recordable injuries

To know more about our sustainability and CSR efforts, please visit [nbf.ae](http://nbf.ae) to read the consolidated 'NBF ESG Report 2022'.

# INTERNAL SHARI'AH SUPERVISION COMMITTEE REPORT

Monitoring and supervision of Shari'ah-compliant banking.



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

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

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

Issued on: 25 January 2023

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'ah Supervision Committee of the Institution ("ISSC") presents to you the ISSC's Annual Report regarding Shari'ah -compliant businesses and operations of the Institution for the financial year ending on 31 December 2022 ("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'ah 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'ah resolutions in this regard, and
- b. determine Shari'ah parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ("HSA") to ascertain compliance of the Institution with Islamic Shari'ah.

The senior management is responsible for compliance of the Institution with Islamic Shari'ah 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'ah") in all Institution's Activities, and the Board bears the ultimate responsibility in this regard.

### **2. Shari'ah 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'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities.

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

The ISSC conducted Shari'ah supervision of the Institution's Activities by reviewing those activities, and monitoring them through the internal Shari'ah control and Shari'ah 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 4 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'ah control and Shari'ah 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'ah control and Shari'ah 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 subcommittee, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'ah.

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'ah.



#### 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'ah requirements.

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

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

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

#### Signatures of members of the Internal Shari'ah Supervision Committee of the Institution

Dr. Mohd Daud Bakar (Chairman & Executive Member)



Dr. Abdul Rahman Al Saadi



Dr. Mohammed Abdullah Al Hashimi



# 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

### Our Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Bank of Fujairah PJSC (the "bank") and its subsidiaries (together the "Group") as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

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

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

### Independence

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

### Our audit approach

#### Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect

of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

#### Key Audit Matter

##### *Measurement of Expected Credit Losses*

The Group applies Expected Credit Losses (ECL) on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments.

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

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

The Group's impairment policy under IFRS 9 is presented in Note 4(e) of the consolidated financial statements.

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

#### How our audit addressed the key audit matter

We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2022:

- (i) We tested the completeness and accuracy of the data used in the calculation of ECL.
- (ii) For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria.
- (iii) We involved our internal experts to assess the following areas:

- Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9.

- ECL modelling methodology and calculations used to compute the Probability of Default (PD), Loss Given Default (LGD), and exposure at default (EAD) for the Group's classes of financial assets. The appropriateness of the model methodology was assessed.
  - Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.
  - For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral.
- (iv) In addition, for the Stage 3 corporate portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit file. For the Stage 3 retail portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised.
- (v) We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of the macro-economic environment on ECL.

## Other information

The Directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Strategic Report, Corporate Governance Report, Corporate Social Responsibility Report and Internal Shari'a Supervision Committee Report which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Corporate Governance Report, Corporate Social Responsibility Report and Internal Shari'a, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of management and those charged with governance for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Decree Law No. 32 of 2021, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021;
- (iii) the Group has maintained proper books of account;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

- (v) as disclosed in note 9.3 to the consolidated financial statements, the Group has not purchased or disposed any shares during the financial year ended 31 December 2022;
- (vi) note 30 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- (vii) Note 27 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2022; and
- (viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022.

PricewaterhouseCoopers

25 January 2023

Rami Serhan

Registered Auditor Number 1152

Place: Dubai, United Arab Emirates

# GROUP FINANCIAL STATEMENTS

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



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

|  | Note   | 2022<br>AED'000   | 2021<br>AED'000   |
|--|--------|-------------------|-------------------|
| <b>Assets</b>  |        |                   |                   |
| Cash and balances with the Central Bank of the UAE                             | 7      | 9,718,922         | 8,006,023         |
| Due from banks and financial institutions                                      | 8      | 2,347,975         | 2,129,423         |
| Investments and Islamic instruments - fair value                               | 9, 34  | 2,699,357         | 2,533,683         |
| Investments and Islamic instruments - amortised cost                           | 9, 34  | 3,650,561         | 1,840,653         |
| Loans and advances and Islamic financing receivables                           | 10     | 26,914,854        | 25,620,485        |
| Acceptances  | 34     | 1,180,925         | 1,653,195         |
| Other assets   | 13, 34 | 665,544           | 769,013           |
| Property and equipment   | 14, 34 | 331,660           | 316,302           |
| Intangibles  | 14, 34 | 114,470           | 76,771            |
| <b>Total assets</b>  |        | <b>47,624,268</b> | <b>42,945,548</b> |
| <b>Liabilities</b>   |        |                   |                   |
| Due to banks   | 15     | 3,388,224         | 2,133,539         |
| Customer deposits and Islamic customer deposits                                | 16     | 35,735,934        | 32,198,745        |
| Term borrowings  | 15     | 440,760           | 514,220           |
| Acceptances  | 34     | 1,184,696         | 1,658,780         |
| Other liabilities  | 17, 34 | 1,024,190         | 764,601           |
| <b>Total liabilities</b>   |        | <b>41,773,804</b> | <b>37,269,885</b> |
| <b>Equity</b>  |        |                   |                   |
| Share capital  | 18.1   | 2,000,000         | 2,000,000         |
| Statutory reserve  | 18.3   | 981,616           | 947,578           |
| Special reserve  | 18.3   | 607,462           | 573,424           |
| Fair value reserve   |        | (52,192)          | 44,041            |
| Proposed bonus issue   | 18.2   | 120,000           | -                 |
| Impairment reserve   | 12.2   | 168,201           | 189,674           |
| Retained earnings  |        | 739,827           | 635,396           |
| 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>5,850,464</b>  | <b>5,675,663</b>  |
| <b>Total liabilities and equity</b>  |        | <b>47,624,268</b> | <b>42,945,548</b> |

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 25 January 2023 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 59 to 111 form an integral part of these consolidated financial statements.

The report of the independent auditor is set out on pages 49 to 52.

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2022

|  | Note | 2022<br>AED'000  | 2021<br>AED'000  |
|--|------|------------------|------------------|
| Interest income and income from Islamic financing and investment activities                | 20   | 1,697,079        | 1,212,321        |
| Interest expense and distribution to Islamic depositors                                    | 21   | (475,903)        | (271,182)        |
| <b>Net interest income and net income from Islamic financing and investment activities</b> |      | <b>1,221,176</b> | <b>941,139</b>   |
| Fees and commission income   |      | 383,340          | 345,438          |
| Fees and commission expense  |      | (50,791)         | (48,978)         |
| <b>Net fees and commission income</b>  | 22   | <b>332,549</b>   | <b>296,460</b>   |
| Foreign exchange and derivatives income  | 23   | 181,377          | 114,192          |
| Income from investments and Islamic instruments  |      | 18,766           | 42,291           |
| Other operating income   | 24   | 60,719           | 47,844           |
| <b>Operating income</b>  |      | <b>1,814,587</b> | <b>1,441,926</b> |
| <b>Operating expenses</b>  |      |                  |                  |
| Employee benefits expense  | 25   | (330,756)        | (287,147)        |
| Depreciation and amortization  | 14   | (33,623)         | (28,601)         |
| Other operating expenses   |      | (213,789)        | (170,535)        |
| <b>Total operating expenses</b>  |      | <b>(578,168)</b> | <b>(486,283)</b> |
| <b>Operating profit before impairment losses</b>   |      | <b>1,236,419</b> | <b>955,643</b>   |
| Net impairment losses  | 28   | (896,038)        | (840,396)        |
| <b>Profit for the year</b>   |      | <b>340,381</b>   | <b>115,247</b>   |
| <b>Earnings per share (basic and diluted)</b>  | 29   | <b>AED 0.132</b> | <b>AED 0.020</b> |

The notes on pages 59 to 111 form an integral part of these consolidated financial statements.  
The report of the independent auditor is set out on pages 49 to 52.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

|   | 2022<br>AED'000 | 2021<br>AED'000 |
|---|-----------------|-----------------|
| <b>Profit for the year</b>  | <b>340,381</b>  | <b>115,247</b>  |
| <b>Other comprehensive income:</b>  |                 |                 |
| <b>Items that will not be reclassified subsequently to statement of income:</b> |                 |                 |
| Movement in fair value reserve (equity instruments):                            |                 |                 |
| - Net change in fair value  | (11,047)        | 2,395           |
| <b>Items that may be reclassified subsequently to statement of income:</b>      |                 |                 |
| Movement in fair value reserve (debt instruments):                              |                 |                 |
| - Net change in fair value  | (64,059)        | (12,532)        |
| - Net change in allowances for impairment                                       | (1,466)         | (689)           |
| - Net amount transferred to the statement of income                             | (19,661)        | (37,716)        |
| <b>Other comprehensive loss for the year</b>                                    | <b>(96,233)</b> | <b>(48,542)</b> |
| <b>Total comprehensive income for the year</b>                                  | <b>244,148</b>  | <b>66,705</b>   |

The notes on pages 59 to 111 form an integral part of these consolidated financial statements.  
The report of the independent auditor is set out on pages 49 to 52.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

|   | Note   | 2022<br>AED'000    | Restated<br>2021<br>AED'000 |
|---|--------|--------------------|-----------------------------|
| <b>Operating activities</b>   |        |                    |                             |
| <b>Profit for the year</b>  |        | <b>340,381</b>     | <b>115,247</b>              |
| Adjustments for:  |        |                    |                             |
| Depreciation and amortization   | 14     | 33,623             | 28,601                      |
| Provision for employee end of service and other long term benefits  | 17.1   | 22,322             | 15,419                      |
| Gain on disposal of property, equipment and intangibles   |        | (153)              | -                           |
| Net impairment losses   | 28     | 896,038            | 840,396                     |
| Net fair value gains on disposal of investments and Islamic instruments   |        | (25,406)           | (47,974)                    |
| Net changes in fair value of investments at fair value through profit or loss   |        | 6,640              | 5,683                       |
| <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>1,273,445</b>   | <b>957,372</b>              |
| Payment of employee end of service and other long term benefits   | 17.1   | (12,803)           | (13,105)                    |
| Change in due from the Central Bank of the UAE  |        | (2,992,849)        | (1,346,971)                 |
| Change in due from banks and financial institutions   |        | (182,407)          | (5,610)                     |
| Change in loans and advances and Islamic financing receivables  |        | (2,135,494)        | (1,651,324)                 |
| Change in acceptances and other assets  |        | 539,261            | 171,262                     |
| Change in due to banks  |        | 1,254,685          | 1,012,821                   |
| Change in customer deposits and Islamic customer deposits   |        | 3,537,189          | 2,432,644                   |
| Change in acceptances and other liabilities   |        | (233,398)          | (160,637)                   |
| <b>Net cash generated from operating activities</b>   |        | <b>1,047,629</b>   | <b>1,396,452</b>            |
| <b>Investing activities</b>   |        |                    |                             |
| Purchase of property, equipment and intangibles   |        | (83,685)           | (55,705)                    |
| Proceeds from sale of property, equipment and intangibles   |        | 153                | -                           |
| Purchase of investments and Islamic instruments   |        | (5,415,379)        | (2,566,223)                 |
| Proceeds from sale and maturity of investments and Islamic instruments  |        | 3,353,610          | 3,371,099                   |
| <b>Net cash (used in) / generated from investing activities</b>   |        | <b>(2,145,301)</b> | <b>749,171</b>              |
| <b>Financing activities</b>   |        |                    |                             |
| Proceeds from term borrowings   |        | 440,760            | 440,760                     |
| Repayment of term borrowings  |        | (514,220)          | (367,300)                   |
| Tier 1 capital securities coupon paid   |        | (75,526)           | (75,526)                    |
| <b>Net cash used in financing activities</b>  |        | <b>(148,986)</b>   | <b>(2,066)</b>              |
| <b>Net change in cash and cash equivalents</b>  |        | <b>(1,246,658)</b> | <b>2,143,557</b>            |
| Cash and cash equivalents at beginning of the year  |        | 5,521,456          | 3,377,899                   |
| <b>Cash and cash equivalents at end of the year</b>   | 31, 34 | <b>4,274,798</b>   | <b>5,521,456</b>            |

The notes on pages 59 to 111 form an integral part of these consolidated financial statements.

The report of the independent auditor is set out on pages 49 to 52.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

| AED'000  | Share capital    | Statutory reserve | Special reserve | Fair value reserve | Proposed bonus issue | Impairment reserve | Retained earnings | Tier 1 capital securities | Total            |
|--|------------------|-------------------|-----------------|--------------------|----------------------|--------------------|-------------------|---------------------------|------------------|
| <b>At 1 January 2022</b>   | <b>2,000,000</b> | <b>947,578</b>    | <b>573,424</b>  | <b>44,041</b>      | -                    | <b>189,674</b>     | <b>635,396</b>    | <b>1,285,550</b>          | <b>5,675,663</b> |
| Profit for the year  | -                | -                 | -               | -                  | -                    | -                  | 340,381           | -                         | 340,381          |
| Other comprehensive loss for the year  | -                | -                 | -               | (96,233)           | -                    | -                  | 6,179             | -                         | (90,054)         |
| <b>Total comprehensive income for the year</b>                                       | -                | -                 | -               | <b>(96,233)</b>    | -                    | -                  | <b>346,560</b>    | -                         | <b>250,327</b>   |
| Excess provisions under Central Bank of the UAE requirements over IFRS 9 (note 12.2) | -                | -                 | -               | -                  | -                    | (21,473)           | 21,473            | -                         | -                |
| Tier 1 capital securities coupon paid  | -                | -                 | -               | -                  | -                    | -                  | (75,526)          | -                         | (75,526)         |
| Proposed bonus issue   | -                | -                 | -               | -                  | 120,000              | -                  | (120,000)         | -                         | -                |
| Transfer to reserves   | -                | 34,038            | 34,038          | -                  | -                    | -                  | (68,076)          | -                         | -                |
| <b>At 31 December 2022</b>   | <b>2,000,000</b> | <b>981,616</b>    | <b>607,462</b>  | <b>(52,192)</b>    | <b>120,000</b>       | <b>168,201</b>     | <b>739,827</b>    | <b>1,285,550</b>          | <b>5,850,464</b> |
| <b>At 1 January 2021</b>   | <b>1,914,762</b> | <b>936,053</b>    | <b>561,899</b>  | <b>92,583</b>      | -                    | <b>283,469</b>     | <b>597,943</b>    | <b>1,285,550</b>          | <b>5,672,259</b> |
| Profit for the year  | -                | -                 | -               | -                  | -                    | -                  | 115,247           | -                         | 115,247          |
| Other comprehensive loss for the year  | -                | -                 | -               | (48,542)           | -                    | -                  | 10,827            | -                         | (37,715)         |
| <b>Total comprehensive income for the year</b>                                       | -                | -                 | -               | <b>(48,542)</b>    | -                    | -                  | <b>126,074</b>    | -                         | <b>77,532</b>    |
| Excess provisions under Central Bank of the UAE requirements over IFRS 9 (note 12.2) | -                | -                 | -               | -                  | -                    | (93,795)           | 93,795            | -                         | -                |
| Tier 1 capital securities coupon paid  | -                | -                 | -               | -                  | -                    | -                  | (75,526)          | -                         | (75,526)         |
| 2021 bonus shares issued (note 18.1)   | 85,238           | -                 | -               | -                  | -                    | -                  | (85,238)          | -                         | -                |
| Liquidation impact of NBF Capital Limited  | -                | -                 | -               | -                  | -                    | -                  | 5                 | -                         | 5                |
| Transfer to reserves   | -                | 11,525            | 11,525          | -                  | -                    | -                  | (23,050)          | -                         | -                |
| Zakat impact (note 33)   | -                | -                 | -               | -                  | -                    | -                  | 1,393             | -                         | 1,393            |
| <b>At 31 December 2021</b>   | <b>2,000,000</b> | <b>947,578</b>    | <b>573,424</b>  | <b>44,041</b>      | -                    | <b>189,674</b>     | <b>635,396</b>    | <b>1,285,550</b>          | <b>5,675,663</b> |

The notes on pages 59 to 111 form an integral part of these consolidated financial statements.  
The report of the independent auditor is set out on pages 49 to 52.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 (Central Bank of the UAE or CBUAE) 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).

The consolidated financial statements for the year ended 31 December 2022 comprise the Bank and its subsidiaries (together referred to as 'the Group').

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Group has assessed and is in compliance of the requirements thereof.

*Implementation of UAE Corporation Tax Law and application of IAS 12 Income Taxes*

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax regime in the UAE. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods beginning on or after 1 June 2023. Generally, UAE businesses will be subject to a 9% corporate tax rate, while a rate of 0% will apply to taxable income not exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance).

However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, including the threshold mentioned above, that are critical for entities to determine their tax status and the amount of tax due. Therefore, pending such important decisions

by the Cabinet, the Bank has determined that the Law was not practically operational as at 31 December 2022, and so not enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. The Bank shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine its tax status and the applicability of IAS 12 – Income Taxes.

The Bank is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

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 Central Bank of the UAE and applicable requirements of the laws of United Arab Emirates.

### 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 presents Basel III Pillar 3 disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel III 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 III, the Group provides full comparative information.

### 4. Significant accounting policies

#### (a) Changes in accounting policies

##### New and revised IFRS adopted in the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

##### Interbank offered rates (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 alternative risk-free benchmark reference rate (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.

IBORs, such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years led regulators, central banks and market participants to work towards a transition to RFRs and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other IBORs have been discontinued after 31 December 2021 and replaced with certain RFR, with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

Further, details of IBOR reforms and related disclosures are covered in note 5(f) of these consolidated financial statements.

#### **Narrow-scope amendments and annual improvements to the IFRS**

Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.

#### **Standards, amendments and interpretations issued but not yet effective and not early adopted**

- **Amendments to IAS 1 Presentation of financial statements – on classification of liabilities** - These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

*Deferred until accounting periods starting not earlier than 1 January 2024*

- **Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction** - These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

- **IFRS 17 'Insurance contracts'** was issued in May 2017 with amendments in June 2020 and December 2021 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2023. The management has assessed the impact of IFRS 17 and expects that the standard will have no significant effect, when applied, on the consolidated financial statements of the group.

- **Amendments to IAS 1 Presentation of financial statements, IFRS Practice statement 2 and IAS 8 Accounting policies, changes in accounting estimates and errors**

The IASB amended IAS 1, 'Presentation of Financial Statements', to require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information.

To support this amendment, the Board also amended IFRS Practice Statement 2, 'Making Materiality Judgements', to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendment to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

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 1 January 2022 that would be expected to have a material impact on the Group's consolidated financial statements.

1 January 2023

#### (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:

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

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

##### Financial instruments held for trading

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

### *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;
- acceptances;
- 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.

#### Acceptances:

The ECL related to acceptances is netted from gross acceptances under assets.

#### 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:

## SECTION 7

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

- Two types of PDs are used for calculating ECL
  - 12 month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures.
  - Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. It varies for the types of financial assets defined in the section above.

- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default.

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

The most significant period-end assumptions used for ECL estimate as at 31 December 2022 and 31 December 2021 are set out in the following table. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables:

### Year 2022

| Macroeconomic variables                        | Scenario  | Assigned probabilities | 2023  | 2024  | 2025  | 2026  | 2027  | Subsequent years |
|--|-----------|------------------------|-------|-------|-------|-------|-------|------------------|
| Oil Price (USD per barrel)                     | Base case | 40%                    | 92.11 | 73.42 | 69.29 | 69.24 | 70.40 | 84.21            |
|  | Upside    | 30%                    | 95.04 | 79.92 | 81.34 | 78.40 | 70.40 | 84.21            |
|  | Downside  | 30%                    | 64.31 | 59.56 | 64.69 | 67.18 | 68.61 | 82.45            |
| UAE Gross Domestic Product (GDP) (AED billion) | Base case | 40%                    | 1,650 | 1,684 | 1,731 | 1,786 | 1,843 | 2,428            |
|  | Upside    | 30%                    | 1,669 | 1,743 | 1,789 | 1,838 | 1,897 | 2,494            |
|  | Downside  | 30%                    | 1,595 | 1,578 | 1,633 | 1,703 | 1,765 | 2,320            |
| Stock market volatility (Delta of points)      | Base case | 40%                    | 25.07 | 24.19 | 23.25 | 23.06 | 23.08 | 23.37            |
|  | Upside    | 30%                    | 21.18 | 23.09 | 22.54 | 22.54 | 22.82 | 23.09            |
|  | Downside  | 30%                    | 38.83 | 25.08 | 23.62 | 23.33 | 23.51 | 23.73            |

### Year 2021

| Macroeconomic variables                        | Scenario  | Assigned probabilities | 2022  | 2023  | 2024  | 2025  | 2026  | Subsequent years |
|--|-----------|------------------------|-------|-------|-------|-------|-------|------------------|
| Oil Price (USD per barrel)                     | Base case | 40%                    | 71.24 | 63.83 | 64.41 | 66.47 | 69.07 | 83.18            |
|  | Upside    | 30%                    | 73.06 | 68.90 | 70.42 | 72.10 | 74.98 | 89.75            |
|  | Downside  | 30%                    | 44.19 | 46.25 | 52.52 | 56.45 | 60.29 | 76.01            |
| UAE Gross Domestic Product (GDP) (AED billion) | Base case | 40%                    | 1,487 | 1,525 | 1,564 | 1,606 | 1,649 | 2,309            |
|  | Upside    | 30%                    | 1,553 | 1,633 | 1,671 | 1,708 | 1,748 | 2,423            |
|  | Downside  | 30%                    | 1,345 | 1,318 | 1,372 | 1,445 | 1,516 | 2,167            |
| Stock market volatility (Delta of points)      | Base case | 40%                    | 24.34 | 24.61 | 23.78 | 23.25 | 23.19 | 23.42            |
|  | Upside    | 30%                    | 21.49 | 23.33 | 23.30 | 22.80 | 23.08 | 23.13            |
|  | Downside  | 30%                    | 36.25 | 24.75 | 24.05 | 23.39 | 23.67 | 23.75            |

### Sensitivity analysis

If the above macroeconomic variables were to change using only base case, upside or downside scenarios to analyse the sensitivity, 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  | -11.58%   | -18.39% | +38.14%  |
| Stage 2  | -8.54%    | -12.95% | +3.84%   |

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 allowances for impairment 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 allowances for impairment for these financial assets is based on a 12-month ECL. When an asset is uncollectible, it is written off against the related ECL. 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.

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 Central Bank of the UAE 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<br>2 » 3 | <ul style="list-style-type: none"> <li>Credit impaired portfolio</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 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 2022.

#### Curing Criteria - upward ECL stage movement

The curing criteria is in line with Central Bank of the UAE 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 for the following:

- impairment losses on loans and receivables;
- fair value measurement of investments portfolio;
- valuation of derivative financial instruments; and
- classification of Additional Tier 1 (AT1) capital securities as equity. Refer note 19 for details.

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 as a result of the economic disruption and on-going geopolitical conditions. This includes significant judgements relating to determination of the impact of the macro-economic scenarios on ECL.

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) Repossessed assets

Real estate and other collateral may be acquired as the result of settlement of certain loans and advances and Islamic financing receivables and are recorded as assets held for sale and reported in 'other assets'. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loans and advances and Islamic financing receivables (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of income. Any subsequent increase in the fair value less

costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of income. The Group's collateral disposal policy is in line with the respective regulatory requirement of the UAE.

#### (j) Property and equipment, software, 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 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 for various types of assets are as follows:

| Class of asset          | Estimated useful life                    |
|-------------------------|--|
| Buildings               | 20 to 40 years                           |
| Leasehold improvements  | Shorter of the lease term or useful life |
| Software                | 7 years                                  |
| Furniture and equipment | 5 years                                  |
| Motor Vehicles          | 3 years                                  |

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

#### Capital work-in-progress

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

**(k) Government grants**

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

**(l) 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.

**(m) 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.

**(n) 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.

Financial guarantee contracts are initially measured at fair value and subsequently at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

**(o) 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 and other long term 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.

**(p) 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.

The interest income / expense accrual on the assets / liabilities linked to RFR indexes will follow the standard market conventions relating to respective RFRs.

**(q) 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.*

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.

(ii) *Fee income earned from providing transaction services.*

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.

**(r) 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.

**(s) Dividend income**

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

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

**(u) 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.

**(v) 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 Chief Executive Officer (CEO) (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.

**(w) 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.

**(x) 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.

**(y) 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.

**(z) 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 applies 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 recognises 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).

**(aa) Acceptances**

Acceptances arise when the Group is under an irrevocable obligation to make payments against accepted documents drawn under Letters of Credit. Acceptances specify the amount of money, the date and the counterparty person/entity to which the payment is due. After the acceptance, the instruments/documents become an unconditional liability (time draft or deferred payment undertaking) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognising it as a financial asset. Acceptances have been considered within the scope of IFRS 9—Financial Instruments. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

**(ab) 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.

#### (ac) Islamic financing receivables, Islamic instruments and Islamic customer deposits

The Group engages in Shari'ah 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 a 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. All the shari'ah compliant assets and investments of Islamic window comprise the Mudaraba pool, where no expenses are charged to Mudaraba pool and all expenses are borne by the Group. The customer and the Group will then share the profit (if any) from the shari'ah compliant investments made by the Group based on a pre-agreed Profit Sharing Ratio (PSR) and pre-assigned weightages. The PSR and weightages are disclosed on the website of NBF Islamic.

The owner of the funds (customer) has authorised the group in its capacity as (Mudarib) to mix the Mudaraba Capital with its own funds of the equity rights, balances of the of Current Accounts, other accounts deemed as Current Accounts and others in which the group is authorised to invest.

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's 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 the Basel III 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, Shari'ah non-compliance risk, money laundering 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 Central Bank of the UAE on an annual basis.

The Group has complied with the 'Capital Adequacy Regulations' issued by the Central Bank of the UAE, 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 III.

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 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 challenge, validation and verification of risks taken by the risk taking functions and departments using methods such as review of procedures, spot checks to assess adequacy of internal controls and meeting of compliance requirements, analysis of data and forecasting and modelling. 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 Head of Internal Audit.

The Group through the Grievance and Disciplinary Committee (GDC) comprising Head of Human Resources, Chief Risk Officer, Chief Operating Officer and Head of Retail 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 Chairman of the Board Audit Committee. To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

The Central Bank of the UAE has issued a number of standards and regulations on the various elements of Risk Management. The Group has taken measures to adhere to all standards and regulations to ensure compliance.

### Model risk management

The Group utilises models in many of its financial and business activities such as underwriting a credit facility to reporting ECL under IFRS 9.

To manage the model risks, the Group has implemented the Model Risk Management Policy and Guidelines. This Policy is applicable to models in all entities and subsidiaries of the Group. All risk quantification models that directly affect the financial reporting on ECL require independent validation.

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

### (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. The 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

The Credit Risk Management framework (CRMF) articulates the 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 Special Assets & 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 oversight of 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 through various counterparty, industry and portfolio 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, the RAS, 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 Central Bank of the UAE 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 Central Bank of the UAE.

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 and off-balance sheet exposures is as follows:

| 2022<br>AED'000        | Funded<br>exposure | Unfunded<br>exposure | Gross<br>exposure | Funded<br>exposure<br>Stage 3 | Stage 3<br>ECL-<br>Funded | Write-off      | Past dues       |                    |
|------------------------|--------------------|----------------------|-------------------|-------------------------------|---------------------------|----------------|-----------------|--------------------|
|                        |                    |                      |                   |                               |                           |                | Upto 89<br>days | 90 days<br>& above |
| Trade                  | 11,975,381         | 2,520,097            | 14,495,478        | 549,228                       | 582,507                   | 286,167        | 10,164          | 9,697              |
| Real estate            | 3,292,940          | 2,523,537            | 5,816,477         | 580,516                       | 422,643                   | 269,254        | 1,443           | 179,195            |
| Government             | 908,583            | 4,176                | 912,759           | -                             | -                         | -              | -               | -                  |
| Manufacturing          | 4,499,080          | 761,441              | 5,260,521         | 130,885                       | 115,541                   | 43,949         | 3,363           | -                  |
| Financial institutions | 822,383            | 245,702              | 1,068,085         | -                             | -                         | -              | -               | -                  |
| Service industries     | 2,779,122          | 340,270              | 3,119,392         | 551,252                       | 143,677                   | 130,569        | 823             | -                  |
| Individuals            | 4,659,600          | 2,667                | 4,662,267         | 179,879                       | 84,473                    | 17,935         | 643             | -                  |
| <b>Gross amount</b>    | <b>28,937,089</b>  | <b>6,397,890</b>     | <b>35,334,979</b> | <b>1,991,760</b>              | <b>1,348,841</b>          | <b>747,874</b> | <b>16,436</b>   | <b>188,892</b>     |

| 2021<br>AED'000        | Funded<br>exposure | Unfunded<br>exposure | Gross<br>exposure | Funded<br>exposure<br>Stage 3 | Stage 3<br>ECL-<br>Funded | Write-off      | Past dues       |                    |
|------------------------|--------------------|----------------------|-------------------|-------------------------------|---------------------------|----------------|-----------------|--------------------|
|                        |                    |                      |                   |                               |                           |                | Upto 89<br>days | 90 days<br>& above |
| Trade                  | 11,298,858         | 2,160,540            | 13,459,398        | 807,888                       | 686,166                   | 466,073        | 29,048          | 3,728              |
| Real estate            | 3,891,661          | 2,786,433            | 6,678,094         | 838,137                       | 571,390                   | 63,715         | 1,055           | -                  |
| Government             | 879,687            | 2,189                | 881,876           | -                             | -                         | -              | -               | -                  |
| Manufacturing          | 3,538,698          | 697,285              | 4,235,983         | 177,506                       | 146,104                   | 80,174         | 15,218          | 691                |
| Financial institutions | 959,480            | 320,681              | 1,280,161         | 53                            | 53                        | 63,869         | -               | -                  |
| Service industries     | 3,019,513          | 344,486              | 3,363,999         | 727,189                       | 185,785                   | 186,340        | 641             | 712                |
| Individuals            | 4,207,552          | 13,140               | 4,220,692         | 174,921                       | 76,782                    | 45,391         | 957             | 301                |
| <b>Gross amount</b>    | <b>27,795,449</b>  | <b>6,324,754</b>     | <b>34,120,203</b> | <b>2,725,694</b>              | <b>1,666,280</b>          | <b>905,562</b> | <b>46,919</b>   | <b>5,432</b>       |

**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 and off-balance sheet exposures is as follows:

| 2022<br>AED'000     | Funded<br>exposure | Unfunded<br>exposure | Gross<br>exposure | Funded<br>exposure<br>Stage 3 | Stage 3<br>ECL-<br>Funded | Write-off      | Past dues       |                    |
|---------------------|--------------------|----------------------|-------------------|-------------------------------|---------------------------|----------------|-----------------|--------------------|
|                     |                    |                      |                   |                               |                           |                | Upto 89<br>days | 90 days<br>& above |
| UAE                 | 27,196,017         | 6,194,598            | 33,390,615        | 1,991,760                     | 1,348,841                 | 747,874        | 15,874          | 188,892            |
| GCC                 | 702,468            | 23,978               | 726,446           | -                             | -                         | -              | -               | -                  |
| Europe              | 719,826            | 90,781               | 810,607           | -                             | -                         | -              | 562             | -                  |
| Americas            | 128,742            | -                    | 128,742           | -                             | -                         | -              | -               | -                  |
| Others              | 190,036            | 88,533               | 278,569           | -                             | -                         | -              | -               | -                  |
| <b>Gross amount</b> | <b>28,937,089</b>  | <b>6,397,890</b>     | <b>35,334,979</b> | <b>1,991,760</b>              | <b>1,348,841</b>          | <b>747,874</b> | <b>16,436</b>   | <b>188,892</b>     |

| 2021<br>AED'000     | Funded<br>exposure | Unfunded<br>exposure | Gross<br>exposure | Funded<br>exposure<br>Stage 3 | Stage 3<br>ECL-<br>Funded | Write-off      | Past dues       |                    |
|---------------------|--------------------|----------------------|-------------------|-------------------------------|---------------------------|----------------|-----------------|--------------------|
|                     |                    |                      |                   |                               |                           |                | Upto 89<br>days | 90 days<br>& above |
| UAE                 | 26,078,259         | 5,919,013            | 31,997,272        | 2,725,693                     | 1,666,279                 | 742,019        | 35,087          | 5,432              |
| GCC                 | 709,693            | 27,327               | 737,020           | -                             | -                         | 163,543        | -               | -                  |
| Europe              | 604,431            | 169,717              | 774,148           | -                             | -                         | -              | 11,832          | -                  |
| Americas            | 177,528            | -                    | 177,528           | 1                             | 1                         | -              | -               | -                  |
| Others              | 225,538            | 208,697              | 434,235           | -                             | -                         | -              | -               | -                  |
| <b>Gross amount</b> | <b>27,795,449</b>  | <b>6,324,754</b>     | <b>34,120,203</b> | <b>2,725,694</b>              | <b>1,666,280</b>          | <b>905,562</b> | <b>46,919</b>   | <b>5,432</b>       |

**Currency wise analysis**

The Group's credit exposure by currency type of loans and advances and Islamic financing receivables and off-balance sheet exposures is as follows:

| AED'000             | 2022               |                      |                   | 2021               |                      |                   |
|---------------------|--------------------|----------------------|-------------------|--------------------|----------------------|-------------------|
|                     | Funded<br>exposure | Unfunded<br>exposure | Gross<br>exposure | Funded<br>exposure | Unfunded<br>exposure | Gross<br>exposure |
| AED                 | 22,236,797         | 4,277,685            | 26,514,482        | 21,669,075         | 4,599,855            | 26,268,930        |
| USD                 | 6,022,500          | 1,837,013            | 7,859,513         | 5,562,305          | 1,477,334            | 7,039,639         |
| EUR                 | 7,260              | 125,541              | 132,801           | 2,001              | 142,458              | 144,459           |
| GBP                 | 844                | 4,655                | 5,499             | 622                | 1,354                | 1,976             |
| XAU                 | 663,746            | -                    | 663,746           | 552,057            | -                    | 552,057           |
| Others              | 5,942              | 152,996              | 158,938           | 9,389              | 103,753              | 113,142           |
| <b>Gross Amount</b> | <b>28,937,089</b>  | <b>6,397,890</b>     | <b>35,334,979</b> | <b>27,795,449</b>  | <b>6,324,754</b>     | <b>34,120,203</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 or 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 and limit monitoring processes. 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 to adopt effective credit risk mitigation mechanism and maximize the use of eligible collateral.

The eligible collateral under IFRS 9 helps in arriving at EAD and LGD for Expected Credit Loss (ECL) calculations. As for measuring ECL, the expected cash shortfalls will reflect via LGD the cash flows expected from collateral realization provided the same are as per contractual terms.

The Group manages credit exposure by obtaining security 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<br>Islamic financing receivables |                    | Collaterals        |                   |                   |
|---|---|--------------------|--------------------|-------------------|-------------------|
|   | AED'000   | 2022               | 2021               | 2022              | 2021              |
| <b>Stage 3</b>  |   |                    |                    |                   |                   |
| Pledged deposits  |   | 180,673            | 292,018            | 5,261             | 7,816             |
| Debt / equity securities                                      |   | 454,665            | 644,712            | 345,863           | 124,138           |
| Property  |   | 750,967            | 1,065,984          | 508,098           | 722,636           |
| Others  |   | 605,455            | 722,980            | -                 | -                 |
| <b>Gross amount</b>   |   | <b>1,991,760</b>   | <b>2,725,694</b>   | <b>859,222</b>    | <b>854,590</b>    |
| <b>Life time ECL (Stage 3)</b>                                |   | <b>(1,348,841)</b> | <b>(1,666,280)</b> | <b>-</b>          | <b>-</b>          |
| <b>Carrying amount</b>  |   | <b>642,919</b>     | <b>1,059,414</b>   | <b>859,222</b>    | <b>854,590</b>    |
| <b>Stage 1 and 2</b>  |   |                    |                    |                   |                   |
| Pledged deposits  |   | 7,583,242          | 6,458,030          | 2,526,166         | 2,257,747         |
| Debt / equity securities                                      |   | 245,550            | 219,550            | 221,139           | 214,783           |
| Property  |   | 10,556,404         | 10,672,590         | 7,626,393         | 7,878,933         |
| Others  |   | 8,560,133          | 7,719,585          | -                 | -                 |
| <b>Gross amount</b>   |   | <b>26,945,329</b>  | <b>25,069,755</b>  | <b>10,373,698</b> | <b>10,351,463</b> |
| <b>12-month ECL (Stage 1) and<br/>Life-time ECL (Stage 2)</b> |   | <b>(673,394)</b>   | <b>(508,684)</b>   | <b>-</b>          | <b>-</b>          |
| <b>Carrying amount</b>  |   | <b>26,271,935</b>  | <b>24,561,071</b>  | <b>10,373,698</b> | <b>10,351,463</b> |
| <b>Total</b>  |   | <b>26,914,854</b>  | <b>25,620,485</b>  | <b>11,232,920</b> | <b>11,206,053</b> |

| Particulars      | Contingent liabilities |                   | Collaterals       |                  |                  |
|------------------|------------------------|-------------------|-------------------|------------------|------------------|
|                  | AED'000                | 2022              | 2021              | 2022             | 2021             |
| Pledged deposits |                        | 4,459,315         | 4,353,400         | 698,877          | 677,208          |
| Others           |                        | 6,324,755         | 6,324,755         | 385,499          | 408,978          |
| <b>Total</b>     |                        | <b>10,784,070</b> | <b>10,678,155</b> | <b>1,084,376</b> | <b>1,086,186</b> |

As at 31 December 2022, re-possessed mortgage properties amounted to **AED 110.0 million** (2021: AED 326.3 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 Central Bank of the UAE 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 distribution by risk grades is presented below:

**2022 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       | 24,626,807        | 378,651          | -                | <b>25,005,458</b> |
| Grade RR 18-19: Watchlist       | 27,141            | 1,912,730        | -                | <b>1,939,871</b>  |
| <b>Total – RR 1-19</b>          | <b>24,653,948</b> | <b>2,291,381</b> | -                | <b>26,945,329</b> |
| <b>RR 20-22: Non-performing</b> | -                 | -                | 1,991,760        | <b>1,991,760</b>  |
| <b>Total</b>                    | <b>24,653,948</b> | <b>2,291,381</b> | <b>1,991,760</b> | <b>28,937,089</b> |

**2021 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       | 23,298,056        | 228,774          | -                | <b>23,526,830</b> |
| Grade RR 18-19: Watchlist       | 76,591            | 1,466,334        | -                | <b>1,542,925</b>  |
| <b>Total – RR 1-19</b>          | <b>23,374,647</b> | <b>1,695,108</b> | -                | <b>25,069,755</b> |
| <b>RR 20-22: Non-performing</b> | -                 | -                | 2,725,694        | <b>2,725,694</b>  |
| <b>Total</b>                    | <b>23,374,647</b> | <b>1,695,108</b> | <b>2,725,694</b> | <b>27,795,449</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 from 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.

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:

| <b>2022</b>                            |                |                  |                |                  |
|--|----------------|------------------|----------------|------------------|
| Total restructured portfolio - AED'000 | Stage 1        | Stage 2          | Stage 3        | Total            |
| Outstanding balance                    | 215,005        | 1,187,612        | 402,369        | 1,804,986        |
| Allowances for impairment (ECL)        | (7,256)        | (146,421)        | (283,621)      | (437,298)        |
| <b>Carrying amount</b>                 | <b>207,749</b> | <b>1,041,191</b> | <b>118,748</b> | <b>1,367,688</b> |

| <b>2021</b>                            |                |                  |                |                  |
|--|----------------|------------------|----------------|------------------|
| Total restructured portfolio - AED'000 | Stage 1        | Stage 2          | Stage 3        | Total            |
| Outstanding balance                    | 459,333        | 1,167,010        | 539,138        | 2,165,481        |
| Allowances for impairment (ECL)        | (10,499)       | (128,618)        | (290,109)      | (429,226)        |
| <b>Carrying amount</b>                 | <b>448,834</b> | <b>1,038,392</b> | <b>249,029</b> | <b>1,736,255</b> |

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

| Restructured portfolio during the year<br>AED'000 | <b>2022</b>           |                      | <b>2021</b>           |                      |
|---|-----------------------|----------------------|-----------------------|----------------------|
|   | Post-<br>modification | Pre-<br>modification | Post-<br>modification | Pre-<br>modification |
| <b>Outstanding balance</b>                        |                       |                      |                       |                      |
| Stage 1   | -                     | 3,033                | 6,223                 | 153,401              |
| Stage 2   | 1,441                 | 3,388                | 7,946                 | 165,472              |
| Stage 3   | -                     | -                    | 79,263                | 48,966               |
| <b>Allowances for impairment (ECL)</b>            | <b>(134)</b>          | <b>(113)</b>         | <b>(74,037)</b>       | <b>(31,564)</b>      |
| <b>Carrying amount</b>                            | <b>1,307</b>          | <b>6,308</b>         | <b>19,395</b>         | <b>336,275</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 Central Bank of the UAE's requirements. The methods of assessment of allowances for impairment have been summarized in note 4.

As part of the approach, the Bank has designed and implemented separate ratings scales pertaining to corporate banking and business banking, retail banking and low default portfolio covering due from banks and financial institutions 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, business banking, financial institutions and retail borrowers.

#### 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 having no clear timeframe of recovery.

**(d) Liquidity risk**

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

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

**Management of liquidity risk**

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

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the Central Bank of the UAE representing 20.4% (2021: 18.6%) of total assets which also include mandatory cash reserve deposits with the Central Bank of the UAE. 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 Central Bank of the UAE, 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   |        |
|---------------------------|--------|--------|--------|--------|
|                           | 2022   | 2021   | 2022   | 2021   |
| <b>12 month - Average</b> | 20.25% | 20.90% | 77.79% | 79.68% |
| <b>12 month - Highest</b> | 24.93% | 26.18% | 81.46% | 83.69% |
| <b>12 month - Lowest</b>  | 16.04% | 17.43% | 72.07% | 75.88% |

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 a 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.

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 Central Bank of the UAE include certificates of deposit which are readily convertible into cash under repurchase arrangements with the Central Bank of the UAE. Investments portfolio include FVOCI investments which can be redeemed before their contractual maturity.

| 2022<br>AED'000   | Less than<br>1 month | 1 month to<br>3 months | Over 3<br>months to<br>6 months | Over 6<br>months to<br>1 year | Over 1<br>year to<br>5 years | Over<br>5 years  | Total             |
|---|----------------------|------------------------|---------------------------------|-------------------------------|------------------------------|------------------|-------------------|
| Cash and balances with<br>the Central Bank of the UAE   | 5,362,012            | 569,993                | 2,076,732                       | 1,710,185                     | -                            | -                | <b>9,718,922</b>  |
| Due from banks and<br>financial institutions            | 1,581,139            | 315,922                | 160,356                         | 290,558                       | -                            | -                | <b>2,347,975</b>  |
| Investments and Islamic<br>instruments                  | 90,963               | 348,537                | 431,005                         | 144,755                       | 4,824,769                    | 509,889          | <b>6,349,918</b>  |
| Loans and advances and Islamic<br>financing receivables | 5,565,913            | 5,819,645              | 2,980,532                       | 1,690,610                     | 3,981,068                    | 6,877,086        | <b>26,914,854</b> |
| Property, equipment<br>and intangibles                  | -                    | -                      | -                               | -                             | -                            | 446,130          | <b>446,130</b>    |
| Acceptances and other assets                            | 315,861              | 1,129,267              | 323,566                         | 77,775                        | -                            | -                | <b>1,846,469</b>  |
| <b>Total assets</b>                                     | <b>12,915,888</b>    | <b>8,183,364</b>       | <b>5,972,191</b>                | <b>3,913,883</b>              | <b>8,805,837</b>             | <b>7,833,105</b> | <b>47,624,268</b> |
| Due to banks  | 1,410,104            | 344,913                | 185,088                         | 115,523                       | 1,332,596                    | -                | <b>3,388,224</b>  |
| Customer deposits and Islamic<br>customer deposits      | 22,317,884           | 4,452,068              | 3,709,060                       | 4,067,274                     | 1,189,648                    | -                | <b>35,735,934</b> |
| Term borrowings   | -                    | -                      | 257,110                         | 183,650                       | -                            | -                | <b>440,760</b>    |
| Acceptances and other liabilities                       | 315,861              | 1,491,684              | 323,566                         | 77,775                        | -                            | -                | <b>2,208,886</b>  |
| Total equity  | -                    | -                      | -                               | -                             | -                            | 5,850,464        | <b>5,850,464</b>  |
| <b>Total liabilities and equity</b>                     | <b>24,043,849</b>    | <b>6,288,665</b>       | <b>4,474,824</b>                | <b>4,444,222</b>              | <b>2,522,244</b>             | <b>5,850,464</b> | <b>47,624,268</b> |
| <b>On-Balance Sheet Gap</b>                             | <b>(11,127,961)</b>  | <b>1,894,699</b>       | <b>1,497,367</b>                | <b>(530,339)</b>              | <b>6,283,593</b>             | <b>1,982,641</b> | <b>-</b>          |
| <b>Cumulative Gap</b>                                   | <b>(11,127,961)</b>  | <b>(9,233,262)</b>     | <b>(7,735,895)</b>              | <b>(8,266,234)</b>            | <b>(1,982,641)</b>           | <b>-</b>         | <b>-</b>          |
| <b>2021</b>   |                      |                        |                                 |                               |                              |                  |                   |
| <b>Total Assets</b>                                     | <b>12,811,055</b>    | <b>9,118,610</b>       | <b>4,689,475</b>                | <b>2,308,612</b>              | <b>9,109,531</b>             | <b>4,908,265</b> | <b>42,945,548</b> |
| <b>Total liabilities and equity</b>                     | <b>19,377,161</b>    | <b>5,594,455</b>       | <b>5,724,862</b>                | <b>4,526,547</b>              | <b>2,046,860</b>             | <b>5,675,663</b> | <b>42,945,548</b> |
| <b>On-Balance Sheet Gap</b>                             | <b>(6,566,106)</b>   | <b>3,524,155</b>       | <b>(1,035,387)</b>              | <b>(2,217,935)</b>            | <b>7,062,671</b>             | <b>(767,398)</b> | <b>-</b>          |
| <b>Cumulative Gap</b>                                   | <b>(6,566,106)</b>   | <b>(3,041,951)</b>     | <b>(4,077,338)</b>              | <b>(6,295,273)</b>            | <b>767,398</b>               | <b>-</b>         | <b>-</b>          |

## SECTION 7

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.

| 2022<br>AED'000                       | Less than<br>1 month | 1 month to<br>3 months | Over 3<br>months to<br>6 months | Over 6<br>months to<br>1 year | Over 1<br>year to<br>5 years | Over<br>5 years  | Total             |
|---------------------------------------|----------------------|------------------------|---------------------------------|-------------------------------|------------------------------|------------------|-------------------|
| Guarantees                            | 5,131,359            | -                      | -                               | -                             | -                            | -                | 5,131,359         |
| Letters of credit                     | 294,284              | 686,196                | 230,209                         | 49,737                        | 6,105                        | -                | 1,266,531         |
| Forward foreign<br>exchange contracts | 7,137,507            | 3,816,453              | 3,624,120                       | 1,504,729                     | 31,194                       | -                | 16,114,003        |
| Currency options                      | -                    | 231,084                | 441,417                         | 354,195                       | 4,117,478                    | -                | 5,144,174         |
| Interest rate derivatives             | -                    | 246,253                | 306,230                         | 318,755                       | 2,058,770                    | 1,680,561        | 4,610,569         |
| Commodity derivatives                 | 155,329              | 441,217                | 60,290                          | -                             | -                            | -                | 656,836           |
| <b>Total</b>                          | <b>12,718,479</b>    | <b>5,421,203</b>       | <b>4,662,266</b>                | <b>2,227,416</b>              | <b>6,213,547</b>             | <b>1,680,561</b> | <b>32,923,472</b> |

| 2021<br>AED'000                       | Less than<br>1 month | 1 month to<br>3 months | Over 3<br>months to<br>6 months | Over 6<br>months to<br>1 year | Over 1<br>year to<br>5 years | Over<br>5 years | Total             |
|---------------------------------------|----------------------|------------------------|---------------------------------|-------------------------------|------------------------------|-----------------|-------------------|
| Guarantees                            | 5,094,598            | -                      | -                               | -                             | -                            | -               | 5,094,598         |
| Letters of credit                     | 148,958              | 758,967                | 226,654                         | 78,747                        | 16,830                       | -               | 1,230,156         |
| Forward foreign<br>exchange contracts | 13,176,302           | 2,143,941              | 3,991,989                       | 796,955                       | -                            | -               | 20,109,187        |
| Currency options                      | -                    | 79,950                 | 236,696                         | 248,362                       | 2,804,550                    | -               | 3,369,558         |
| Interest rate derivatives             | 200,020              | 237,191                | 408,994                         | 256,402                       | 3,872,677                    | 724,338         | 5,699,622         |
| Commodity derivatives                 | 142,564              | 226,685                | -                               | -                             | -                            | -               | 369,249           |
| <b>Total</b>                          | <b>18,762,442</b>    | <b>3,446,734</b>       | <b>4,864,333</b>                | <b>1,380,466</b>              | <b>6,694,057</b>             | <b>724,338</b>  | <b>35,872,370</b> |

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

| Derivatives<br>AED'000                | 2022              |                        |                        |               | 2021              |                        |                        |               |
|---------------------------------------|-------------------|------------------------|------------------------|---------------|-------------------|------------------------|------------------------|---------------|
|                                       | Notional          | Positive<br>fair value | Negative<br>fair value | Net           | Notional          | Positive<br>fair value | Negative<br>fair value | Net           |
| Forward foreign<br>exchange contracts | 16,114,003        | 58,274                 | 52,449                 | 5,825         | 20,109,187        | 59,580                 | 46,299                 | 13,281        |
| Currency options                      | 5,144,174         | 36,478                 | 36,478                 | -             | 3,369,558         | 22,393                 | 22,327                 | 66            |
| Interest rate derivatives             | 4,610,569         | 79,701                 | 65,939                 | 13,762        | 5,699,622         | 92,598                 | 84,627                 | 7,971         |
| Commodity derivatives                 | 656,836           | 10,200                 | 7,545                  | 2,655         | 369,249           | 9,611                  | 6,849                  | 2,762         |
| <b>Total</b>                          | <b>26,525,582</b> | <b>184,653</b>         | <b>162,411</b>         | <b>22,242</b> | <b>29,547,616</b> | <b>184,182</b>         | <b>160,102</b>         | <b>24,080</b> |

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

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2022 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.

| 2022<br>AED'000                                       | Carrying<br>amount | Gross<br>notional<br>outflows | Less than<br>1 month | 1 month to<br>3 months | Over 3<br>months to<br>6 months | Over 6<br>months<br>to 1 year | Over 1<br>year to 5<br>years | Over 5<br>years |
|---|--------------------|-------------------------------|----------------------|------------------------|---------------------------------|-------------------------------|------------------------------|-----------------|
| <b>Financial liabilities</b>                          |                    |                               |                      |                        |                                 |                               |                              |                 |
| Due to banks  | 3,388,224          | 3,528,131                     | 1,417,097            | 361,497                | 214,963                         | 151,352                       | 1,383,222                    | -               |
| Customer deposits<br>and Islamic<br>customer deposits | 35,735,934         | 36,222,586                    | 22,371,771           | 4,513,044              | 3,801,733                       | 4,229,445                     | 1,306,593                    | -               |
| Term borrowings                                       | 440,760            | 454,652                       | -                    | -                      | 263,827                         | 190,825                       | -                            | -               |
| Acceptances and<br>other liabilities                  | 1,975,587          | 1,975,587                     | 315,861              | 1,258,385              | 323,566                         | 77,775                        | -                            | -               |
| <b>Total</b>  | <b>41,540,505</b>  | <b>42,180,956</b>             | <b>24,104,729</b>    | <b>6,132,926</b>       | <b>4,604,089</b>                | <b>4,649,397</b>              | <b>2,689,815</b>             | <b>-</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. The trading portfolio includes positions arising from market-making, proprietary positions and other marked-to-market positions so designated. The 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, the Investment Management Team escalates to the 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.

The table below shows the impact of decline in fair value of investments by 10% on net income and regulatory capital and equity for 2022 and 2021:

| Investments classified as FVTPL            | Assumed level of<br>change % | Impact on profit<br>and regulatory capital<br>2022<br>AED'000 | Impact on profit<br>and regulatory capital<br>2021<br>AED'000 |
|--|------------------------------|---|---|
| Reference benchmarks:                      |                              |   |   |
| Fair value of managed funds                | 10%                          | 1,988   | 178   |
| Investments classified as FVOCI            | Assumed level of<br>change % | Impact on equity<br>2022<br>AED'000                           | Impact on equity<br>2021<br>AED'000                           |
| Reference benchmarks:                      |                              |   |   |
| Quoted debt securities / Islamic<br>Sukuks | 10%                          | 211,436   | 188,597   |
| Other investments                          | 10%                          | 57,090  | 65,025  |

**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 the 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>2022 (AED'000)</b>   | <b>135,142</b>   | <b>7,007</b> | <b>37,633</b>  |
| <b>2021 (AED'000)</b>   | <b>(267,395)</b> | <b>1,261</b> | <b>36,253</b>  |
| Assumed change in exchange rates                                  | 5%               | 5%           | 5%             |
| <b>Impact on exchange income from increase in exchange rates:</b> |                  |              |                |
| <b>2022 (AED'000)</b>   | <b>6,757</b>     | <b>350</b>   | <b>1,882</b>   |
| <b>2021 (AED'000)</b>   | <b>(13,370)</b>  | <b>63</b>    | <b>1,813</b>   |
| <b>Impact on exchange income from decrease in exchange rates:</b> |                  |              |                |
| <b>2022 (AED'000)</b>   | <b>(6,757)</b>   | <b>(350)</b> | <b>(1,882)</b> |
| <b>2021 (AED'000)</b>   | <b>13,370</b>    | <b>(63)</b>  | <b>(1,813)</b> |

At 31 December 2022, the impact on exchange income due to change in exchange rate by 5% is  $\pm 4.96\%$  (2021:  $\pm 10.07\%$ ). Excluding the impact of US\$ open position, the impact is  $\pm 1.23\%$  (2021:  $\pm 1.64\%$ ).

**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 **6.3%** (2021: 10.1%) 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>2022 (AED'000)</b> | <b>97,709</b>  | <b>25,606</b> | <b>(121)</b> | <b>(5,710)</b> | <b>117,484</b> |
| <b>2021 (AED'000)</b> | <b>119,572</b> | <b>25,507</b> | <b>10</b>    | <b>(4,955)</b> | <b>140,134</b> |

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

|                       |                 |                 |             |              |                  |
|-----------------------|-----------------|-----------------|-------------|--------------|------------------|
| <b>2022 (AED'000)</b> | <b>(97,757)</b> | <b>(26,318)</b> | <b>108</b>  | <b>4,369</b> | <b>(119,598)</b> |
| <b>2021 (AED'000)</b> | <b>(84,978)</b> | <b>(32,007)</b> | <b>(27)</b> | <b>7,272</b> | <b>(109,740)</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 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 | 2022         |                | 2021         |                |
|-----|--------------|----------------|--------------|----------------|
|     | Upward shift | Downward shift | Upward shift | Downward shift |
| 25  | 2.41%        | -2.45%         | 3.72%        | -3.51%         |
| 50  | 4.81%        | -4.90%         | 7.44%        | -5.88%         |
| 100 | 9.62%        | -9.79%         | 14.89%       | -11.66%        |

**Impact on regulatory capital**

| bps | 2022         |                | 2021         |                |
|-----|--------------|----------------|--------------|----------------|
|     | Upward shift | Downward shift | Upward shift | Downward shift |
| 25  | 0.48%        | -0.49%         | 0.60%        | -0.57%         |
| 50  | 0.95%        | -0.97%         | 1.20%        | -0.95%         |
| 100 | 1.91%        | -1.94%         | 2.41%        | -1.88%         |

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 7

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:

| 2022<br>AED'000  | Less than<br>1 month | 1 month to<br>3 months | Over 3<br>months to<br>6 months | Over<br>6 months<br>to 1 year | Over<br>1 to 5<br>years | Over 5<br>years   | Non-interest<br>bearing<br>items | Total             |
|--|----------------------|------------------------|---------------------------------|-------------------------------|-------------------------|-------------------|----------------------------------|-------------------|
| Cash and balances with the<br>Central Bank of the UAE      | 2,648,950            | 569,993                | 2,076,732                       | 1,710,185                     | -                       | -                 | 2,713,062                        | <b>9,718,922</b>  |
| Due from banks and<br>financial institutions               | 446,796              | 396,288                | 160,356                         | 90,558                        | -                       | -                 | 1,253,977                        | <b>2,347,975</b>  |
| Investments and<br>Islamic instruments                     | 535,144              | 501,019                | 220,977                         | 126,173                       | 4,393,209               | 557,477           | 15,919                           | <b>6,349,918</b>  |
| Loans and advances<br>and Islamic financing<br>receivables | 9,569,482            | 11,157,858             | 3,020,645                       | 1,353,147                     | 1,372,964               | 469,822           | (29,064)                         | <b>26,914,854</b> |
| Acceptances and<br>other assets                            | -                    | -                      | -                               | -                             | -                       | -                 | 1,716,087                        | <b>1,716,087</b>  |
| <b>Total financial assets</b>                              | <b>13,200,372</b>    | <b>12,625,158</b>      | <b>5,478,710</b>                | <b>3,280,063</b>              | <b>5,766,173</b>        | <b>1,027,299</b>  | <b>5,669,981</b>                 | <b>47,047,756</b> |
| Due to banks   | 1,998,935            | 778,034                | -                               | 115,523                       | 494,782                 | -                 | 950                              | <b>3,388,224</b>  |
| Customer deposits<br>and Islamic customer<br>deposits      | 5,892,931            | 4,677,086              | 3,629,362                       | 4,142,902                     | 1,189,880               | -                 | 16,203,773                       | <b>35,735,934</b> |
| Term borrowings  | -                    | -                      | 257,110                         | 183,650                       | -                       | -                 | -                                | <b>440,760</b>    |
| Acceptances and<br>other liabilities                       | -                    | -                      | -                               | -                             | -                       | -                 | 1,975,587                        | <b>1,975,587</b>  |
| <b>Total financial liabilities</b>                         | <b>7,891,866</b>     | <b>5,455,120</b>       | <b>3,886,472</b>                | <b>4,442,075</b>              | <b>1,684,662</b>        | <b>-</b>          | <b>18,180,310</b>                | <b>41,540,505</b> |
| <b>Interest rate<br/>sensitivity gap</b>                   |                      |                        |                                 |                               |                         |                   |                                  |                   |
| On-balance sheet   | 5,308,506            | 7,170,038              | 1,592,238                       | (1,162,012)                   | 4,081,511               | 1,027,299         | (12,510,329)                     |                   |
| Off-balance sheet  | -                    | -                      | 76,046                          | (36,730)                      | (39,316)                | -                 | -                                |                   |
| <b>Cumulative</b>  | <b>5,308,506</b>     | <b>12,478,544</b>      | <b>14,146,828</b>               | <b>12,948,086</b>             | <b>16,990,281</b>       | <b>18,017,580</b> | <b>5,507,251</b>                 |                   |
| <b>2021</b>  |                      |                        |                                 |                               |                         |                   |                                  |                   |
| <b>Cumulative interest rate<br/>sensitivity gap</b>        | <b>10,422,444</b>    | <b>17,307,675</b>      | <b>16,204,513</b>               | <b>12,659,843</b>             | <b>15,191,953</b>       | <b>17,490,535</b> | <b>5,126,369</b>                 |                   |

### Interest rate yields

The average earning on placements and balances with banks was 2.01% (2021: 0.40%), on loans and advances and Islamic financing receivables was 4.71% (2021: 4.01%) and on the investment portfolio was 2.83% (2021: 1.72%). The average cost of customer deposits and Islamic customer deposits was 1.19% (2021: 0.82%) and of due to banks and term borrowings was 2.34% (2021: 0.99%).

### Derivative financial instruments

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

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

- (i) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

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

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

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

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

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

#### Hedging instrument

| 2022<br>AED'000                               | Assets       | Liabilities | Notional      |
|---|--------------|-------------|---------------|
| <b>Derivatives held as fair value hedges</b>  |              |             |               |
| Interest rate swaps                           | 1,812        | -           | 88,902        |
| <b>Total derivative financial instruments</b> | <b>1,812</b> | <b>-</b>    | <b>88,902</b> |

| 2021<br>AED'000                               | Assets   | Liabilities  | Notional       |
|---|----------|--------------|----------------|
| <b>Derivatives held as fair value hedges</b>  |          |              |                |
| Interest rate swaps                           | -        | 5,302        | 178,141        |
| <b>Total derivative financial instruments</b> | <b>-</b> | <b>5,302</b> | <b>178,141</b> |

The carrying value of investments (hedged item) is **AED 84.6 million** (31 December 2021: AED 197.3 million) and the accumulated amount of fair value adjustments to investments (hedged item) is **AED 1.8 million** (31 December 2021: AED 5.3 million). The gains / losses attributable to the hedged risk for investments amounted to **AED 1.8 million** (31 December 2021: AED 5.3 million) and on the interest rate swaps (hedging instrument) amounted to **AED 1.8 million** (31 December 2021: AED 5.3 million). All the hedges were fully effective for the year ended 31 December 2022 and 31 December 2021.

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

| 2022<br>AED'000     | Less than<br>1 month | 1 month to<br>3 months | Over 3<br>months to<br>6 months | Over 6<br>months to<br>1 year | Over 1<br>year to<br>5 years | Over<br>5 years | Total  |
|---------------------|----------------------|------------------------|---------------------------------|-------------------------------|------------------------------|-----------------|--------|
| Interest rate swaps | -                    | 12,856                 | -                               | 36,730                        | 39,316                       | -               | 88,902 |
|                     | -                    | 12,856                 | -                               | 36,730                        | 39,316                       | -               | 88,902 |

#### Hedging instrument

| 2021<br>AED'000     | Less than<br>1 month | 1 month to<br>3 months | Over 3<br>months to<br>6 months | Over 6<br>months to<br>1 year | Over 1<br>year to<br>5 years | Over<br>5 years | Total   |
|---------------------|----------------------|------------------------|---------------------------------|-------------------------------|------------------------------|-----------------|---------|
| Interest rate swaps | -                    | -                      | -                               | 128,555                       | 49,586                       | -               | 178,141 |
|                     | -                    | -                      | -                               | 128,555                       | 49,586                       | -               | 178,141 |

**(f) IBOR Reforms**

The Group has maintained its momentum in tracking its exposure to IBORs, preparing its IT systems to accommodate the incoming RFRs, amending or preparing contractual templates and communicating its progress with both the Regulators and its clients. IBOR reform exposes the Bank to various risks, which the IBOR Project Working Committee is managing and monitoring closely under oversight of ALCO. These risks include, but are not limited to, the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable; and
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.

The Group has set up a methodical framework to monitor the progress of transition from IBORs to new benchmark rates by

reviewing its exposure and contracts on a regular basis. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR. The Group holds derivatives for trading and risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating legs that are indexed to various IBORs. The Group's derivative instruments are governed by ISDA definitions.

Further, the Group evaluated the extent to which its fair value hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly USD 3 months / 6 months LIBOR Index. These IBOR benchmark rates are quoted regularly and IBOR cash flows are exchanged with its counterparties as usual.

The Group's exposure to interest rate swaps designated in hedge accounting relationships as at 31 December 2022 represents an amount of **AED 88.9 million**. The objective of the majority of these hedges is to reduce fluctuations from interest rate risk and is consistent with the overall interest rate risk management strategy of NBF .

**Financial assets:**

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

| Currency     | 2022<br>AED'000  | 2021<br>AED'000  |
|--------------|------------------|------------------|
| USD          | 1,697,517        | 3,694,600        |
| EUR          | -                | 4,099            |
| <b>Total</b> | <b>1,697,517</b> | <b>3,698,699</b> |

**Financial liabilities:**

The Group has floating-rate liabilities indexed to IBORs of **AED 178.7 million** (2021: AED 803.1 million) denominated in USD. The table below shows the Bank's exposure to significant IBORs subject to reform that have yet to transition to RFRs.

| 2022<br>AED'000 | Non-derivative<br>financial assets<br>carrying value | Non-derivative<br>financial liabilities<br>carrying value | Derivative notional<br>amount |
|-----------------|--|---|-------------------------------|
| LIBOR 1 month   | 133,882  | -   | 6,856                         |
| LIBOR 3 month   | 1,300,954  | 178,685   | 601,665                       |
| LIBOR 6 month   | 262,681  | -   | 49,586                        |
| <b>Total</b>    | <b>1,697,517</b>                                     | <b>178,685</b>  | <b>658,107</b>                |

The table below indicates the notional amount and weighted average maturity of derivatives in hedging relationships analysed by interest rate basis. These will be affected by IBOR reforms as financial instruments transition to RFR. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Bank manages through hedging relationships:

| 2022                      | Nominal amount<br>AED'000 | Average Maturity<br>(Year) |
|---------------------------|---------------------------|----------------------------|
| <b>Interest rate swap</b> |                           |                            |
| LIBOR 3 month             | -                         | -                          |
| LIBOR 6 month             | 49,586                    | 0.5                        |
| <b>Total</b>              | <b>49,586</b>             | <b>0.5</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). Compliance with Group standards is supported by a programme of periodic risk and internal control assessments and reviews undertaken by Internal Audit, 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 residual risk, settlement risk, reputational risk, cyber risk, Shari'ah non-compliance risk, money laundering risk, strategic risk and legal and compliance 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 Central Bank of the UAE, sets and monitors regulatory capital requirements. The requirements of capital for subsidiaries, NBF Financial Services FZC and NBF Markets (Cayman) Limited, are determined by the Free Zone Authority of Fujairah and Cayman Island Government General Registry respectively.

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

- To safeguard the Group's ability to continue as a going concern and to increase returns for shareholders;
- To maintain adequate level and achieve an optimum structure for the Group's capital commensurate to its

strategy, risk profile and relative positioning in the market;

- To comply with regulatory capital requirements set by the Central Bank of the UAE;
- To efficiently allocate capital to various businesses leading to enhanced shareholder value and optimal risk reward;
- To ensure effective internal organisation and processes and to assess and manage material risks on an ongoing basis; and
- To provide for any unforeseen losses.

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

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

In implementing capital requirements, the Group calculates its capital adequacy ratio in accordance with the 'Capital Adequacy Regulations' issued by the Central Bank of the UAE. The Central Bank of the UAE 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 III compliant bank. The Central Bank of the UAE places considerable emphasis on the ICAAP and the Group has developed an economic capital model to comply with the Central Bank of the UAE 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 III 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 securities.

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.

#### Minimum transitional arrangements as per Central Bank of the UAE

| Capital element                    | Basel III<br>2022 | Basel III<br>2021 |
|------------------------------------|-------------------|-------------------|
| 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%              |

#### Capital Stress Testing:

The Group carried out and submitted to the Central Bank of the UAE stress testing exercise in accordance with the macroeconomic and business scenarios prescribed by the Central Bank of the UAE through its related guidelines. 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 Central Bank of the UAE stress test.

The stress testing exercise achieves the following objectives:

- It provides a forward looking assessment of risk under a stressed scenario;
- It assesses the impact of various Macroeconomic Variables for UAE markets;
- It elaborates the methodologies, and the assumptions undertaken in the process;
- It assists the Group in shaping its strategy, by gauging the capital impact due to stress scenarios;
- It enables the Group to assess extreme risk scenarios, along with contingency plan for such events; and
- It reports 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  | 2022<br>AED'000                             | 2021<br>AED'000                             |
|---|---|---|
| <b>CET1 capital</b>   |   |   |
| Share capital   | 2,000,000                                   | 2,000,000                                   |
| Statutory reserve   | 981,616                                     | 947,578                                     |
| Special reserve   | 607,462                                     | 573,424                                     |
| Retained earnings   | 859,827                                     | 635,396                                     |
| IFRS 9 transitional arrangement –<br>ECL (stage 1 and 2) impact | 145,679                                     | 18,738                                      |
| Accumulated other comprehensive income                          | (52,192)                                    | 19,818                                      |
| Regulatory deductions - intangibles                             | (49,732)                                    | -   |
| <b>CET1 total</b>   | <b>4,492,660</b>                            | <b>4,194,954</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>5,778,210</b>                            | <b>5,480,504</b>                            |
| <b>Tier 2 capital</b>   |   |   |
| Collective impairment provision                                 | 377,362                                     | 344,866                                     |
| <b>Total tier 2</b>   | <b>377,362</b>                              | <b>344,866</b>                              |
| <b>Total capital base (a)</b>                                   | <b>6,155,572</b>                            | <b>5,825,370</b>                            |
| <b>Risk weighted assets</b>                                     |   |   |
|   | 2022<br>Risk-weighted equivalent<br>AED'000 | 2021<br>Risk-weighted equivalent<br>AED'000 |
| Credit risk   | 30,188,941                                  | 27,589,268                                  |
| Market risk   | 58,816                                      | 41,298                                      |
| Operational risk  | 2,902,177                                   | 2,850,595                                   |
| <b>Total risk weighted assets (b)</b>                           | <b>33,149,934</b>                           | <b>30,481,161</b>                           |
| <b>Capital adequacy ratio (a) / (b) - %</b>                     | <b>18.6</b>                                 | <b>19.1</b>                                 |
| <b>Tier 1 ratio - %</b>   | <b>17.4</b>                                 | <b>18.0</b>                                 |
| <b>Common equity tier 1 ratio (CET 1) - %</b>                   | <b>13.6</b>                                 | <b>13.8</b>                                 |

The Group prepares an ICAAP report and submits to the Central Bank of the UAE 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 such as 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.

#### 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 Central Bank of the UAE Basel III 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 ECAIs, 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 corporates 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 Central Bank of the UAE guidelines. Claims which do not meet the criteria are assigned risk weights of 100%.

#### Claims secured by residential property

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

#### Claims secured by commercial property

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

#### Past due exposures

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

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

#### Equity portfolios

Equity in banking book is risk weighted at 150%.

#### Other exposures

These are risk weighted at 100%.

### Credit risk and risk weights

| 2022<br>AED'000  | On & off balance<br>sheet Gross<br>outstanding | Credit risk mitigation (CRM) |                  | On & off balance<br>sheet net exposure<br>after credit<br>conversion factor<br>(CCF) | Risk-weighted<br>assets |
|--|--|------------------------------|------------------|--|-------------------------|
|  |  | Exposure<br>before CRM       | CRM              |  |                         |
| Claims on sovereigns                                   | 10,285,231                                     | 10,285,231                   | -                | 10,285,231   | 85,512                  |
| Claims on PSEs, GREs<br>and Corporates                 | 29,194,096                                     | 29,194,096                   | 3,934,867        | 26,684,897   | 21,018,965              |
| Claims on Banks and Multi<br>Lateral Development Banks | 7,875,758                                      | 7,409,257                    | -                | 7,830,370  | 3,208,753               |
| Regulatory retail exposures                            | 918,160  | 748,432                      | 101,918          | 818,866  | 537,711                 |
| Residential retail portfolio                           | 2,957,576                                      | 2,957,576                    | -                | 2,957,576  | 1,815,036               |
| Commercial real estate                                 | 1,557,481                                      | 1,557,481                    | -                | 1,557,481  | 1,557,481               |
| Past due exposures                                     | 2,801,163                                      | 769,332                      | 1,134,643        | 1,569,337  | 476,459                 |
| Higher-risk categories                                 | 2,598  | 2,598                        | -                | 2,598  | 3,897                   |
| Credit valuation<br>adjustment (CVA) risk              | 109,203  | 109,203                      | -                | 109,203  | 109,203                 |
| Other exposures  | 1,997,742                                      | 1,995,042                    | -                | 1,995,042  | 1,375,924               |
| <b>Total</b>   | <b>57,699,008</b>                              | <b>55,028,248</b>            | <b>5,171,428</b> | <b>53,810,601</b>  | <b>30,188,941</b>       |

| 2021<br>AED'000  | On & off balance<br>sheet Gross<br>outstanding | Credit risk mitigation (CRM) |                  | On & off balance<br>sheet net exposure<br>after credit<br>conversion factor<br>(CCF) | Risk-weighted<br>assets |
|--|--|------------------------------|------------------|--|-------------------------|
|  |  | Exposure<br>before CRM       | CRM              |  |                         |
| Claims on sovereigns                                   | 10,030,875                                     | 10,030,875                   | -                | 10,030,875   | 247,891                 |
| Claims on PSEs, GREs<br>and Corporates                 | 27,526,367                                     | 27,363,013                   | 3,979,035        | 24,896,901   | 19,273,070              |
| Claims on Banks and Multi<br>Lateral Development Banks | 4,447,508                                      | 4,210,241                    | -                | 4,420,774  | 1,530,170               |
| Regulatory retail exposures                            | 1,236,014                                      | 1,105,696                    | 38,367           | 1,096,770  | 801,840                 |
| Residential retail portfolio                           | 2,542,117                                      | 2,542,117                    | -                | 2,542,117  | 1,444,152               |
| Commercial real estate                                 | 1,686,798                                      | 1,686,798                    | -                | 1,686,798  | 1,686,798               |
| Past due exposures                                     | 3,618,930                                      | 1,418,148                    | 701,264          | 1,966,264  | 1,265,000               |
| Higher-risk categories                                 | 2,862  | 2,862                        | -                | 2,862  | 4,293                   |
| Other exposures  | 1,696,952                                      | 1,696,952                    | -                | 1,696,952  | 1,336,054               |
| <b>Total</b>   | <b>52,788,423</b>                              | <b>50,056,702</b>            | <b>4,718,666</b> | <b>48,340,313</b>  | <b>27,589,268</b>       |

On and off balance sheet exposures include unutilized credit limits which are revocable at the discretion of the Bank amounting to **AED 13,838 million** (2021: AED 10,864 million).

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:

|   | 2022<br>AED'000 | 2021<br>AED'000 |
|---|-----------------|-----------------|
| Interest rate risk                        |                 |                 |
| - Specific interest rate risk             | 975             | 362             |
| - General interest rate risk              | -               | -               |
| Equity position risk                      |                 |                 |
| - General equity exposure risk            | -               | -               |
| Foreign exchange risk                     | 5,201           | 3,974           |
| Option risk                               | -               | -               |
| <b>Total market risk capital charge</b>   | <b>6,176</b>    | <b>4,336</b>    |
| <b>Market risk – risk weighted assets</b> | <b>58,816</b>   | <b>41,298</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

The 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 2022 and 2021 are as follows:

| 2022<br>AED'000                                      | At fair value<br>through profit<br>or loss | At fair value<br>through other<br>comprehensive<br>income | Amortised<br>cost | Total             |
|--|--|---|-------------------|-------------------|
| <b>Financial assets</b>                              |  |   |                   |                   |
| Cash and balances with the Central Bank of the UAE   | -  | -   | 9,718,922         | <b>9,718,922</b>  |
| Due from banks and financial institutions            | -  | -   | 2,353,509         | <b>2,353,509</b>  |
| Investments and Islamic instruments                  | 19,884                                     | 2,685,259   | 3,659,768         | <b>6,364,911</b>  |
| Loans and advances and Islamic financing receivables | -  | -   | 28,937,089        | <b>28,937,089</b> |
| Acceptances and other assets                         | -  | -   | 1,719,858         | <b>1,719,858</b>  |
| <b>Total financial assets</b>                        | <b>19,884</b>                              | <b>2,685,259</b>  | <b>46,389,146</b> | <b>49,094,289</b> |
| <b>Financial liabilities</b>                         |  |   |                   |                   |
| Due to banks   | -  | -   | 3,388,224         | <b>3,388,224</b>  |
| Customer deposits and Islamic customer deposits      | -  | -   | 35,735,934        | <b>35,735,934</b> |
| Term borrowings                                      | -  | -   | 440,760           | <b>440,760</b>    |
| Acceptances and other liabilities                    | -  | -   | 1,975,587         | <b>1,975,587</b>  |
| <b>Total financial liabilities</b>                   | <b>-</b>                                   | <b>-</b>  | <b>41,540,505</b> | <b>41,540,505</b> |

| 2021<br>AED'000                                      | At fair value<br>through profit<br>or loss | At fair value<br>through other<br>comprehensive<br>income | Amortised<br>cost | Total             |
|--|--|---|-------------------|-------------------|
| <b>Financial assets</b>                              |  |   |                   |                   |
| Cash and balances with the Central Bank of the UAE   | -  | -   | 8,006,023         | <b>8,006,023</b>  |
| Due from banks and financial institutions            | -  | -   | 2,137,809         | <b>2,137,809</b>  |
| Investments and Islamic instruments                  | 1,783                                      | 2,536,220   | 1,842,607         | <b>4,380,610</b>  |
| Loans and advances and Islamic financing receivables | -  | -   | 27,795,449        | <b>27,795,449</b> |
| Acceptances and other assets                         | -  | -   | 2,092,562         | <b>2,092,562</b>  |
| <b>Total financial assets</b>                        | <b>1,783</b>                               | <b>2,536,220</b>  | <b>41,874,450</b> | <b>44,412,453</b> |
| <b>Financial liabilities</b>                         |  |   |                   |                   |
| Due to banks   | -  | -   | 2,133,539         | <b>2,133,539</b>  |
| Customer deposits and Islamic customer deposits      | -  | -   | 32,198,745        | <b>32,198,745</b> |
| Term borrowings                                      | -  | -   | 514,220           | <b>514,220</b>    |
| Acceptances and other liabilities                    | -  | -   | 2,238,786         | <b>2,238,786</b>  |
| <b>Total financial liabilities</b>                   | <b>-</b>                                   | <b>-</b>  | <b>37,085,290</b> | <b>37,085,290</b> |

Fair value of investments and Islamic instruments measured at amortized cost amounted to **AED 3,428.3 million** (31 December 2021: AED 1,846.1 million). Management considers that the carrying amounts of all other financial assets and financial liabilities measured at amortised cost in these consolidated financial statements approximate their fair values.

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

Allowances for impairment under Other Liabilities represent ECL for off-balance sheet items.

## 6.2 Fair value measurement – fair value hierarchy:

| 2022<br>AED'000                            | Notional   | Level 1   | Level 2 | Level 3 |
|--|------------|-----------|---------|---------|
| <b>Investments and Islamic instruments</b> |            |           |         |         |
| Debt securities / Islamic sukuku           | -          | 2,114,364 | -       | -       |
| Other investments                          | -          | 588,180   | 2,599   | -       |
| Forward foreign exchange contracts         | 16,114,003 | -         | 5,825   | -       |
| Currency options                           | 5,144,174  | -         | -       | -       |
| Interest rate derivatives                  | 4,610,569  | -         | 13,762  | -       |
| Commodity derivatives                      | 656,836    | -         | 2,655   | -       |

| 2021<br>AED'000                            | Notional   | Level 1   | Level 2 | Level 3 |
|--|------------|-----------|---------|---------|
| <b>Investments and Islamic instruments</b> |            |           |         |         |
| Debt securities / Islamic sukuku           | -          | 1,885,970 | -       | -       |
| Other investments                          | -          | 649,169   | 2,862   | -       |
| Forward foreign exchange contracts         | 20,109,187 | -         | 13,281  | -       |
| Currency options                           | 3,369,558  | -         | 66      | -       |
| Interest rate derivatives                  | 5,699,622  | -         | 7,971   | -       |
| Commodity derivatives                      | 369,249    | -         | 2,762   | -       |

|  | Fair value (FV) hierarchy | Valuation techniques and key inputs   | Significant unobservable inputs | Relationship of unobservable inputs to FV |
|--|---------------------------|---|---------------------------------|---|
| Debt securities / Islamic sukuku and Other investments | Level 1                   | Quoted bid prices in active market  | None                            | Not applicable                            |
| Other investments                                      | Level 2                   | Quoted prices in secondary market   | None                            | Not applicable                            |
| Derivatives  | Level 2                   | Observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices) | None                            | Not applicable                            |

During the year, there were no transfers between Level 1 and Level 2. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments. Please refer note 4 for details.

## 7. Cash and balances with the Central Bank of the UAE

| AED'000  | 2022             | 2021             |
|--|------------------|------------------|
| Cash on hand   | 381,485          | 272,685          |
| Certificates of deposit (CDs) with the Central Bank of the UAE | 7,005,860        | 6,013,366        |
| Other balances with the Central Bank of the UAE (note 7.1)     | 2,331,577        | 1,719,972        |
|  | <b>9,718,922</b> | <b>8,006,023</b> |

7.1 Other balances with the Central Bank of the UAE include regulatory cash reserve deposits of AED 2,331.6 million (2021: AED 1,720.4 million).

## 8. Due from banks and financial institutions

### 8.1 By type

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| Placements  | 562,148          | 512,122          |
| Current accounts / term deposits                  | 1,052,446        | 992,084          |
| Bills discounted                                  | 738,915          | 633,603          |
|   | <b>2,353,509</b> | <b>2,137,809</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (5,534)          | (8,386)          |
|   | <b>2,347,975</b> | <b>2,129,423</b> |

Current accounts / term deposits include cash collateral of AED 174.9 million (2021: AED 125.0 million) in respect of negative fair value of derivatives, in accordance with the agreements with interbank counterparties.

Due from banks and financial institutions include a Wakala placement amounting to AED 128.6 million (2021: AED 73.5 million) undertaken through a Shari'ah compliant Islamic window, NBF Islamic.

Due from banks and financial institutions include bank risk discounting portfolio amounting to AED 738.9 million (31 December 2021: AED 633.6 million) to support customers' trade business.

### 8.2 By currency

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| AED   | 426,995          | 262,292          |
| USD   | 1,534,122        | 1,395,666        |
| EUR   | 43,797           | 36,819           |
| GBP   | 38,183           | 133,223          |
| XAU   | 44,318           | 12,796           |
| Others  | 266,094          | 297,013          |
|   | <b>2,353,509</b> | <b>2,137,809</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (5,534)          | (8,386)          |
|   | <b>2,347,975</b> | <b>2,129,423</b> |

### 8.3 By geographical area

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| UAE   | 521,979          | 538,984          |
| GCC   | 429,296          | 239,940          |
| Europe  | 594,865          | 510,648          |
| Americas  | 497,778          | 453,528          |
| Others  | 309,591          | 394,709          |
|   | <b>2,353,509</b> | <b>2,137,809</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (5,534)          | (8,386)          |
|   | <b>2,347,975</b> | <b>2,129,423</b> |

The dispersion of due from banks and financial institutions portfolio based on the redistribution of risk is set out below:

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| UAE   | 451,764          | 467,546          |
| GCC   | 419,516          | 231,268          |
| Europe  | 848,764          | 724,111          |
| Americas  | 238,385          | 225,384          |
| Others  | 395,080          | 489,500          |
|   | <b>2,353,509</b> | <b>2,137,809</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (5,534)          | (8,386)          |
|   | <b>2,347,975</b> | <b>2,129,423</b> |

## 8.4 Based on external credit ratings:

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| AA  | 2,132            | 1,160            |
| AA-   | 21,563           | 39,480           |
| A+  | 45,435           | 48,496           |
| A   | 1,024,317        | 219,634          |
| A-  | -                | 450,283          |
| BBB+  | 671,575          | 759,934          |
| BBB   | 25,886           | 19,588           |
| BBB- and below                                    | 562,601          | 599,234          |
|   | <b>2,353,509</b> | <b>2,137,809</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (5,534)          | (8,386)          |
|   | <b>2,347,975</b> | <b>2,129,423</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:

| 2022<br>AED'000                             | Stage 1          | Stage 2 | Stage 3 | Total            |
|---|------------------|---------|---------|------------------|
| Outstanding balance                         | 2,358,446        | -       | -       | <b>2,358,446</b> |
| Allowances for impairment (ECL) (note 12.1) | (5,534)          | -       | -       | <b>(5,534)</b>   |
| <b>Carrying amount</b>                      | <b>2,352,912</b> | -       | -       | <b>2,352,912</b> |

| 2021<br>AED'000                             | Stage 1          | Stage 2 | Stage 3 | Total            |
|---|------------------|---------|---------|------------------|
| Outstanding balance                         | 2,138,314        | -       | -       | <b>2,138,314</b> |
| Allowances for impairment (ECL) (note 12.1) | (8,386)          | -       | -       | <b>(8,386)</b>   |
| <b>Carrying amount</b>                      | <b>2,129,928</b> | -       | -       | <b>2,129,928</b> |

Due from banks and financial institutions were in stage 1 throughout the year. Accordingly, there have been no significant movements between stages in respect of these financial assets.

## 9. Investments and Islamic instruments

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| <b>Investments at fair value through profit or loss (FVTPL) (note 9.1)</b>  | <b>19,884</b>    | <b>1,783</b>     |
| <b>Investments at fair value through other comprehensive income (FVOCI)</b> |                  |                  |
| Debt securities / Islamic sukuks (note 9.2)                                 | 2,114,364        | 1,885,971        |
| Other investments / Islamic instruments (note 9.3)                          | 570,895          | 650,249          |
|   | <b>2,685,259</b> | <b>2,536,220</b> |
| <b>Investments measured at amortised cost</b>                               |                  |                  |
| Debt securities / Islamic sukuks (note 9.2)                                 | 3,659,768        | 1,842,607        |
|   | <b>6,364,911</b> | <b>4,380,610</b> |
| Less: Allowances for impairment (ECL) (note 12.1)                           | (14,993)         | (6,274)          |
|   | <b>6,349,918</b> | <b>4,374,336</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 5,659.8 million** (2021: AED 3,650.3 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 640.9 million** (2021: AED 748.3 million).

Debt securities portfolio include Islamic sukuk amounting to **AED 903.7 million** (2021: AED 588.7 million).

Debt securities portfolio include additional tier 1 perpetual bonds of **AED 114.3 million** (2021: AED 78.3 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 569.8 million** (2021: AED 649.2 million). No shares were purchased by the Bank during the year (2021: nil).

9.4 The dispersion of the investment portfolio is as follows:

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| Government  | 1,658,144        | 2,114,735        |
| Banks and financial institutions                  | 3,690,654        | 1,272,597        |
| Others  | 1,016,113        | 993,278          |
|   | <b>6,364,911</b> | <b>4,380,610</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (14,993)         | (6,274)          |
|   | <b>6,349,918</b> | <b>4,374,336</b> |

9.5 By geographical area:

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| UAE   | 1,172,483        | 1,570,272        |
| GCC   | 341,104          | 728,534          |
| Europe  | 2,277,662        | 700,819          |
| Americas  | 1,829,205        | 749,127          |
| Others  | 744,457          | 631,858          |
|   | <b>6,364,911</b> | <b>4,380,610</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (14,993)         | (6,274)          |
|   | <b>6,349,918</b> | <b>4,374,336</b> |

The dispersion of investment portfolio based on the redistribution of risk is set out below:

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| UAE   | 1,518,337        | 1,777,386        |
| GCC   | 627,767          | 942,815          |
| Europe  | 1,849,110        | 319,589          |
| Americas  | 1,097,457        | 320,697          |
| Others  | 1,272,240        | 1,020,123        |
|   | <b>6,364,911</b> | <b>4,380,610</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (14,993)         | (6,274)          |
|   | <b>6,349,918</b> | <b>4,374,336</b> |

Others include investments in multilateral development banks amounting to **AED 522.9 million** (2021: AED 368.7 million).

9.6 By currency:

| AED'000   | 2022             | 2021             |
|---|------------------|------------------|
| AED   | 144,375          | 1,080            |
| USD   | 6,039,297        | 4,230,262        |
| EUR   | 88,066           | 119,165          |
| GBP   | 38,858           | 30,102           |
| SGD   | 54,315           | -                |
| JPY   | -                | 1                |
|   | <b>6,364,911</b> | <b>4,380,610</b> |
| Less: Allowances for impairment (ECL) (note 12.1) | (14,993)         | (6,274)          |
|   | <b>6,349,918</b> | <b>4,374,336</b> |

## 9.7 Based on external credit rating:

| 2022<br>AED'000                                   | Debt securities /<br>Islamic sukus | Other<br>investments | Total            |
|---|------------------------------------|----------------------|------------------|
| AAA   | 54,315                             | -                    | 54,315           |
| AA  | 564,091                            | -                    | 564,091          |
| AA-   | 776,285                            | 107,096              | 883,381          |
| A+  | 68,439                             | -                    | 68,439           |
| A   | 537,362                            | 452,770              | 990,132          |
| A-  | 1,601,141                          | -                    | 1,601,141        |
| BBB+  | 1,186,745                          | -                    | 1,186,745        |
| BBB   | 631,790                            | -                    | 631,790          |
| BBB- and below                                    | 353,964                            | 30,913               | 384,877          |
| Less: Allowances for impairment (ECL) (note 12.1) | (13,573)                           | (1,420)              | (14,993)         |
|   | <b>5,760,559</b>                   | <b>589,359</b>       | <b>6,349,918</b> |

| 2021<br>AED'000                                   | Debt securities /<br>Islamic sukus | Other<br>investments | Total            |
|---|------------------------------------|----------------------|------------------|
| AAA   | -                                  | 163,354              | 163,354          |
| AA  | 1,142,231                          | 213,645              | 1,355,876        |
| AA-   | 560,434                            | -                    | 560,434          |
| A+  | 251,182                            | -                    | 251,182          |
| A   | 687,498                            | 232,097              | 919,595          |
| A-  | 710,733                            | -                    | 710,733          |
| BBB+  | 107,575                            | -                    | 107,575          |
| BBB   | 36,764                             | -                    | 36,764           |
| BBB- and below                                    | 232,161                            | 42,936               | 275,097          |
| Less: Allowances for impairment (ECL) (note 12.1) | (4,662)                            | (1,612)              | (6,274)          |
|   | <b>3,723,916</b>                   | <b>650,420</b>       | <b>4,374,336</b> |

BBB- and below rating investments include unrated issuances by Government related entities.

## 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:

| 2022<br>AED'000                             | Stage 1          | Stage 2  | Stage 3  | Total            |
|---|------------------|----------|----------|------------------|
| Outstanding balance                         | 6,333,999        | -        | -        | 6,333,999        |
| Allowances for impairment (ECL) (note 12.1) | (14,993)         | -        | -        | (14,993)         |
| <b>Carrying amount</b>                      | <b>6,319,006</b> | <b>-</b> | <b>-</b> | <b>6,319,006</b> |

| 2021<br>AED'000                             | Stage 1          | Stage 2  | Stage 3  | Total            |
|---|------------------|----------|----------|------------------|
| Outstanding balance                         | 4,337,674        | -        | -        | 4,337,674        |
| Allowances for impairment (ECL) (note 12.1) | (6,274)          | -        | -        | (6,274)          |
| <b>Carrying amount</b>                      | <b>4,331,400</b> | <b>-</b> | <b>-</b> | <b>4,331,400</b> |

Debt investments and Islamic instruments are in stage 1 throughout the year. 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   | 2022              | 2021              |
|---|-------------------|-------------------|
| Overdrafts  | 2,153,354         | 2,289,408         |
| Term loans  | 20,081,844        | 19,982,404        |
| Loans against trust receipts                                      | 4,023,558         | 2,990,319         |
| Bills discounted  | 2,292,094         | 2,239,960         |
| Bills drawn under letters of credit                               | 386,239           | 293,358           |
| <b>Gross loans and advances and Islamic financing receivables</b> | <b>28,937,089</b> | <b>27,795,449</b> |
| Allowances for impairment losses (ECL) (note 12.1)                | (2,022,235)       | (2,174,964)       |
| <b>Net loans and advances and Islamic financing receivables</b>   | <b>26,914,854</b> | <b>25,620,485</b> |

10.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to AED 3,190.7 million (2021: AED 3,299.0 million) provided through a Shari'ah compliant Islamic window, NBF Islamic.

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

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

| 2022<br>AED'000                             | Stage 1           | Stage 2          | Stage 3          | Total             |
|---|-------------------|------------------|------------------|-------------------|
| Outstanding balance                         | 24,863,960        | 2,317,638        | 2,430,987        | 29,612,585        |
| Allowances for impairment (ECL) (note 12.1) | (233,100)         | (440,294)        | (1,348,841)      | (2,022,235)       |
| <b>Carrying amount</b>                      | <b>24,630,860</b> | <b>1,877,344</b> | <b>1,082,146</b> | <b>27,590,350</b> |

| 2021<br>AED'000                             | Stage 1           | Stage 2          | Stage 3          | Total             |
|---|-------------------|------------------|------------------|-------------------|
| Outstanding balance                         | 23,500,683        | 1,707,868        | 3,061,791        | 28,270,342        |
| Allowances for impairment (ECL) (note 12.1) | (266,434)         | (242,250)        | (1,666,280)      | (2,174,964)       |
| <b>Carrying amount</b>                      | <b>23,234,249</b> | <b>1,465,618</b> | <b>1,395,511</b> | <b>26,095,378</b> |

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

| Outstanding Balance<br>AED'000                  | Stage 1           | Stage 2          | Stage 3          | Total             |
|---|-------------------|------------------|------------------|-------------------|
| <b>Gross carrying amount - 31 December 2021</b> | <b>23,500,683</b> | <b>1,707,868</b> | <b>3,061,791</b> | <b>28,270,342</b> |
| Transferred from Stage 1                        | (208,716)         | 174,852          | 33,864           | -                 |
| Transferred from Stage 2                        | 66,248            | (116,720)        | 50,472           | -                 |
| Transferred from Stage 3                        | -                 | 38,072           | (38,072)         | -                 |
| Originated / (derecognized) during the year     | 1,505,745         | 513,566          | 70,806           | 2,090,117         |
| Written-off during the year                     | -                 | -                | (747,874)        | (747,874)         |
| <b>Gross carrying amount - 31 December 2022</b> | <b>24,863,960</b> | <b>2,317,638</b> | <b>2,430,987</b> | <b>29,612,585</b> |

| Outstanding Balance<br>AED'000                  | Stage 1           | Stage 2          | Stage 3          | Total             |
|---|-------------------|------------------|------------------|-------------------|
| <b>Gross carrying amount - 31 December 2020</b> | <b>21,176,571</b> | <b>3,322,340</b> | <b>3,034,312</b> | <b>27,533,223</b> |
| Transferred from Stage 1                        | (204,441)         | 150,199          | 54,242           | -                 |
| Transferred from Stage 2                        | 497,986           | (1,280,790)      | 782,804          | -                 |
| Transferred from Stage 3                        | -                 | 8,303            | (8,303)          | -                 |
| Originated / (derecognized) during the year     | 2,030,567         | (492,184)        | 104,298          | <b>1,642,681</b>  |
| Written-off during the year                     | -                 | -                | (905,562)        | <b>(905,562)</b>  |
| <b>Gross carrying amount - 31 December 2021</b> | <b>23,500,683</b> | <b>1,707,868</b> | <b>3,061,791</b> | <b>28,270,342</b> |

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

| ECL<br>AED'000  | Stage 1         | Stage 2        | Stage 3          | Total            |
|---|-----------------|----------------|------------------|------------------|
| <b>ECL allowance - 31 December 2021</b>   | <b>266,434</b>  | <b>242,250</b> | <b>1,666,280</b> | <b>2,174,964</b> |
| Transferred from Stage 1  | (4,987)         | 9,671          | 28,150           | <b>32,834</b>    |
| Transferred from Stage 2  | 482             | (4,904)        | 16,158           | <b>11,736</b>    |
| Transferred from Stage 3  | -               | 3,478          | (21,209)         | <b>(17,731)</b>  |
| Originated / (derecognized) during the year<br>including changes in PDs / LGDs / EADs | (28,829)        | 189,799        | 407,336          | <b>568,306</b>   |
| <b>Net allowance for impairment losses</b>  | <b>(33,334)</b> | <b>198,044</b> | <b>430,435</b>   | <b>595,145</b>   |
| Written-off during the year   | -               | -              | (747,874)        | <b>(747,874)</b> |
| <b>ECL allowance - 31 December 2022</b>   | <b>233,100</b>  | <b>440,294</b> | <b>1,348,841</b> | <b>2,022,235</b> |

| ECL<br>AED'000  | Stage 1        | Stage 2          | Stage 3          | Total            |
|---|----------------|------------------|------------------|------------------|
| <b>ECL allowance - 31 December 2020</b>   | <b>260,462</b> | <b>562,772</b>   | <b>1,385,622</b> | <b>2,208,856</b> |
| Transferred from Stage 1  | (7,023)        | 7,843            | 24,562           | <b>25,382</b>    |
| Transferred from Stage 2  | 12,983         | (275,752)        | 385,885          | <b>123,116</b>   |
| Transferred from Stage 3  | -              | 622              | (5,537)          | <b>(4,915)</b>   |
| Originated / (derecognized) during the year<br>including changes in PDs / LGDs / EADs | 12             | (53,235)         | 781,310          | <b>728,087</b>   |
| <b>Net allowance for impairment losses</b>  | <b>5,972</b>   | <b>(320,522)</b> | <b>1,186,220</b> | <b>871,670</b>   |
| Written-off during the year   | -              | -                | (905,562)        | <b>(905,562)</b> |
| <b>ECL allowance - 31 December 2021</b>   | <b>266,434</b> | <b>242,250</b>   | <b>1,666,280</b> | <b>2,174,964</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  | 2022             | 2021             |
|--|------------------|------------------|
| <b>Contingent liabilities:</b>   |                  |                  |
| Letters of credit covering movement of goods                             | 1,266,531        | 1,230,156        |
| Financial guarantees and other direct credit substitutes                 | 827,984          | 656,527          |
| Bid bonds, performance bonds and other transaction related contingencies | 4,303,375        | 4,438,071        |
|  | <b>6,397,890</b> | <b>6,324,754</b> |
| <b>Commitments:</b>  |                  |                  |
| Undrawn irrevocable commitments – credit related                         | 90,022           | 77,111           |
| Commitments for future capital expenditure                               | 126,734          | 96,650           |
|  | <b>216,756</b>   | <b>173,761</b>   |
|  | <b>6,614,646</b> | <b>6,498,515</b> |

The total undrawn commitments which are revocable at the discretion of the Bank amount to **AED 13,838 million** (2021: AED 10,864 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:

| 2022<br>AED'000                             | Stage 1          | Stage 2        | Stage 3        | Total            |
|---|------------------|----------------|----------------|------------------|
| Outstanding balance                         | 5,820,222        | 186,595        | 154,197        | <b>6,161,014</b> |
| Allowances for impairment (ECL) (note 12.1) | (19,364)         | (5,684)        | (75,561)       | <b>(100,609)</b> |
| <b>Carrying amount</b>                      | <b>5,800,858</b> | <b>180,911</b> | <b>78,636</b>  | <b>6,060,405</b> |
| 2021<br>AED'000                             | Stage 1          | Stage 2        | Stage 3        | Total            |
| Outstanding balance                         | 5,489,636        | 153,273        | 481,505        | <b>6,124,414</b> |
| Allowances for impairment (ECL) (note 12.1) | (17,478)         | (1,547)        | (69,017)       | <b>(88,042)</b>  |
| <b>Carrying amount</b>                      | <b>5,472,158</b> | <b>151,726</b> | <b>412,488</b> | <b>6,036,372</b> |

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

| Outstanding balance<br>AED'000                  | Stage 1          | Stage 2        | Stage 3        | Total            |
|---|------------------|----------------|----------------|------------------|
| <b>Gross carrying amount - 31 December 2021</b> | <b>5,489,636</b> | <b>153,273</b> | <b>481,505</b> | <b>6,124,414</b> |
| Transferred from Stage 1                        | (43,709)         | 23,340         | 20,369         | -                |
| Transferred from Stage 2                        | 7,591            | (8,091)        | 500            | -                |
| Transferred from Stage 3                        | -                | 160            | (160)          | -                |
| Originated / (expired) during the year          | 366,704          | 17,913         | (348,017)      | <b>36,600</b>    |
| Written-off during the year                     | -                | -              | -              | -                |
| <b>Gross carrying amount - 31 December 2022</b> | <b>5,820,222</b> | <b>186,595</b> | <b>154,197</b> | <b>6,161,014</b> |

| Outstanding balance<br>AED'000                  | Stage 1          | Stage 2        | Stage 3        | Total            |
|---|------------------|----------------|----------------|------------------|
| <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> |
| Transferred from Stage 1                        | (14,108)         | 13,783         | 325            | -                |
| Transferred from Stage 2                        | 310,358          | (682,203)      | 371,845        | -                |
| Transferred from Stage 3                        | -                | -              | -              | -                |
| Originated / (expired) during the year          | (480,900)        | (128,844)      | (80,013)       | <b>(689,757)</b> |
| Written-off during the year                     | -                | -              | -              | -                |
| <b>Gross carrying amount - 31 December 2021</b> | <b>5,489,636</b> | <b>153,273</b> | <b>481,505</b> | <b>6,124,414</b> |

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

| ECL<br>AED'000  | Stage 1       | Stage 2      | Stage 3       | Total          |
|---|---------------|--------------|---------------|----------------|
| <b>ECL allowances - 31 December 2021</b>                                    | <b>17,478</b> | <b>1,547</b> | <b>69,017</b> | <b>88,042</b>  |
| Transferred from Stage 1  | (392)         | 2,084        | 11,680        | <b>13,372</b>  |
| Transferred from Stage 2  | 109           | (148)        | 500           | <b>461</b>     |
| Transferred from Stage 3  | -             | 1            | (99)          | <b>(98)</b>    |
| Originated / expired during the year including changes in PDs / LGDs / EADs | 2,169         | 2,200        | (5,537)       | <b>(1,168)</b> |
| <b>Net allowance for impairment losses</b>                                  | <b>1,886</b>  | <b>4,137</b> | <b>6,544</b>  | <b>12,567</b>  |
| Written-off during the year   | -             | -            | -             | -              |
| <b>ECL allowance - 31 December 2022</b>                                     | <b>19,364</b> | <b>5,684</b> | <b>75,561</b> | <b>100,609</b> |

| ECL<br>AED'000  | Stage 1        | Stage 2        | Stage 3         | Total           |
|---|----------------|----------------|-----------------|-----------------|
| <b>ECL allowance - 31 December 2020</b>                                     | <b>19,058</b>  | <b>7,155</b>   | <b>95,756</b>   | <b>121,969</b>  |
| Transferred from Stage 1  | (87)           | 137            | 154             | <b>204</b>      |
| Transferred from Stage 2  | 1,094          | (3,916)        | 14,697          | <b>11,875</b>   |
| Transferred from Stage 3  | -              | -              | -               | -               |
| Originated / expired during the year including changes in PDs / LGDs / EADs | (2,587)        | (1,829)        | (41,590)        | <b>(46,006)</b> |
| <b>Net allowance for impairment losses</b>                                  | <b>(1,580)</b> | <b>(5,608)</b> | <b>(26,739)</b> | <b>(33,927)</b> |
| Written-off during the year   | -              | -              | -               | -               |
| <b>ECL allowances - 31 December 2021</b>                                    | <b>17,478</b>  | <b>1,547</b>   | <b>69,017</b>   | <b>88,042</b>   |

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to **AED 100.6 million**, (2021: AED 88.0 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, due from banks and financial institutions, debt investments and Islamic instruments, acceptances and other assets and off-balance sheet items is as follows:

| 2022<br>AED'000  | Loans and advances and Islamic financing receivables | Due from banks and financial institutions | Investments and Islamic instruments | Acceptances and other assets | Off-balance sheet exposures | Total            | ECL rate     |
|------------------|--|---|-------------------------------------|------------------------------|-----------------------------|------------------|--------------|
| <b>Stage 3</b>   | <b>1,348,841</b>                                     | -   | -                                   | <b>2,700</b>                 | <b>75,561</b>               | <b>1,427,102</b> | <b>52.9%</b> |
| Stage 2          | 440,294  | -   | -                                   | 49                           | 5,684                       | <b>446,027</b>   | <b>17.7%</b> |
| Stage 1          | 233,100  | 5,534                                     | 14,993                              | 3,722                        | 19,364                      | <b>276,713</b>   | <b>0.7%</b>  |
|                  | <b>673,394</b>                                       | <b>5,534</b>                              | <b>14,993</b>                       | <b>3,771</b>                 | <b>25,048</b>               | <b>722,740</b>   |              |
| <b>Total ECL</b> | <b>2,022,235</b>                                     | <b>5,534</b>                              | <b>14,993</b>                       | <b>6,471</b>                 | <b>100,609</b>              | <b>2,149,842</b> | <b>4.7%</b>  |
| <b>ECL rate</b>  | <b>6.8%</b>  | <b>0.2%</b>                               | <b>0.2%</b>                         | <b>0.5%</b>                  | <b>1.6%</b>                 |                  |              |

| 2021<br>AED'000  | Loans and advances and Islamic financing receivables | Due from banks and financial institutions | Investments and Islamic instruments | Acceptances and other assets | Off-balance sheet exposures | Total            | ECL rate     |
|------------------|--|---|-------------------------------------|------------------------------|-----------------------------|------------------|--------------|
| <b>Stage 3</b>   | <b>1,666,280</b>                                     | -   | -                                   | <b>715</b>                   | <b>69,017</b>               | <b>1,736,012</b> | <b>49.0%</b> |
| Stage 2          | 242,250  | -   | -                                   | -                            | 1,547                       | <b>243,797</b>   | <b>13.1%</b> |
| Stage 1          | 266,434  | 8,386                                     | 6,274                               | 4,870                        | 17,478                      | <b>303,442</b>   | <b>0.8%</b>  |
|                  | <b>508,684</b>                                       | <b>8,386</b>                              | <b>6,274</b>                        | <b>4,870</b>                 | <b>19,025</b>               | <b>547,239</b>   |              |
| <b>Total ECL</b> | <b>2,174,964</b>                                     | <b>8,386</b>                              | <b>6,274</b>                        | <b>5,585</b>                 | <b>88,042</b>               | <b>2,283,251</b> | <b>5.4%</b>  |
| <b>ECL rate</b>  | <b>7.7%</b>  | <b>0.4%</b>                               | <b>0.1%</b>                         | <b>0.3%</b>                  | <b>1.4%</b>                 |                  |              |

### 12.2 Impairment reserve:

Pursuant to the Central Bank of the UAE guidelines on IFRS 9 during 2018, banks are required to compare provisions calculated as per the Central Bank of the UAE and IFRS 9. Where Central Bank of the UAE 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 2022 and 31 December 2021:

| AED'000   | Impairment reserve - General | Impairment reserve - Specific | Impairment reserve |
|---|------------------------------|-------------------------------|--------------------|
| <b>At 1 January 2022</b>  | -                            | <b>189,674</b>                | <b>189,674</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 | -                            | (21,473)                      | (21,473)           |
|   | -                            | <b>(21,473)</b>               | <b>(21,473)</b>    |
| <b>At 31 December 2022</b>  | -                            | <b>168,201</b>                | <b>168,201</b>     |

| AED'000   | Impairment reserve - General | Impairment reserve - Specific | Impairment reserve |
|---|------------------------------|-------------------------------|--------------------|
| <b>At 1 January 2021</b>  | -                            | <b>283,469</b>                | <b>283,469</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 | -                            | (93,795)                      | (93,795)           |
|   | -                            | <b>(93,795)</b>               | <b>(93,795)</b>    |
| <b>At 31 December 2021</b>  | -                            | <b>189,674</b>                | <b>189,674</b>     |

### 13. Other assets

| AED'000                                     | 2022           | 2021           |
|---|----------------|----------------|
| Accrued interest / profit                   | 238,938        | 136,903        |
| Prepayments and deposits                    | 20,070         | 14,159         |
| Fair value of derivatives                   | 184,653        | 184,182        |
| Others                                      | 224,583        | 433,769        |
| Allowances for impairment (ECL) (note 12.1) | (2,700)        | -              |
|   | <b>665,544</b> | <b>769,013</b> |

### 14. Property, equipment and intangibles

| AED'000                         | Freehold land  | Buildings & leasehold improvements | Motor vehicles, furniture & equipment | Total          | Intangibles    |
|---------------------------------|----------------|------------------------------------|---------------------------------------|----------------|----------------|
| <b>Cost</b>                     |                |                                    |                                       |                |                |
| <b>At 1 January 2021</b>        | <b>113,666</b> | <b>173,495</b>                     | <b>123,913</b>                        | <b>411,074</b> | <b>144,435</b> |
| Additions                       | -              | 5,000                              | 14,997                                | <b>19,997</b>  | 16,402         |
| Disposals / others              | -              | 3,141                              | -                                     | <b>3,141</b>   | -              |
| <b>At 31 December 2021</b>      | <b>113,666</b> | <b>181,636</b>                     | <b>138,910</b>                        | <b>434,212</b> | <b>160,837</b> |
| <b>At 1 January 2022</b>        | <b>113,666</b> | <b>181,636</b>                     | <b>138,910</b>                        | <b>434,212</b> | <b>160,837</b> |
| Additions                       | -              | 37                                 | 7,130                                 | <b>7,167</b>   | 22,315         |
| Disposals / others              | -              | 6,713                              | (535)                                 | <b>6,178</b>   | -              |
| <b>At 31 December 2022</b>      | <b>113,666</b> | <b>188,386</b>                     | <b>145,505</b>                        | <b>447,557</b> | <b>183,152</b> |
| <b>Accumulated depreciation</b> |                |                                    |                                       |                |                |
| <b>At 1 January 2021</b>        | -              | <b>109,325</b>                     | <b>98,234</b>                         | <b>207,559</b> | <b>112,874</b> |
| Charge for the year             | -              | 8,289                              | 11,478                                | <b>19,767</b>  | 8,834          |
| On disposals / others           | -              | -                                  | -                                     | -              | -              |
| <b>At 31 December 2021</b>      | -              | <b>117,614</b>                     | <b>109,712</b>                        | <b>227,326</b> | <b>121,708</b> |
| <b>At 1 January 2022</b>        | -              | <b>117,614</b>                     | <b>109,712</b>                        | <b>227,326</b> | <b>121,708</b> |
| Charge for the year             | -              | 9,881                              | 12,031                                | <b>21,912</b>  | 11,711         |
| On disposals / others           | -              | -                                  | (535)                                 | <b>(535)</b>   | -              |
| <b>At 31 December 2022</b>      | -              | <b>127,495</b>                     | <b>121,208</b>                        | <b>248,703</b> | <b>133,419</b> |
| <b>Net book value</b>           |                |                                    |                                       |                |                |
| <b>At 31 December 2022</b>      | <b>113,666</b> | <b>60,891</b>                      | <b>24,297</b>                         | <b>198,854</b> | <b>49,733</b>  |
| <b>At 31 December 2021</b>      | <b>113,666</b> | <b>64,022</b>                      | <b>29,198</b>                         | <b>206,886</b> | <b>39,129</b>  |

Aforementioned disclosure relating to building and leasehold improvements includes right-of-use (ROU) assets amounting to **AED 15.4 million** (2021: AED 14.1 million).

The buildings in Fujairah and Dibba are constructed on land granted to the Group by the Government of Fujairah. The land is shown at a nominal value of **AED 1** each (2021: AED 1 each).

## 14.1 Capital work-in-progress

| AED'000                    | 2022           | 2021           |
|----------------------------|----------------|----------------|
| Property and equipment     | 132,805        | 109,416        |
| Intangibles                | 64,738         | 37,642         |
| <b>At 31 December 2022</b> | <b>197,543</b> | <b>147,058</b> |

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.

## 15. Due to banks and term borrowings

| AED'000                          | 2022             | 2021             |
|----------------------------------|------------------|------------------|
| <b>By type:</b>                  |                  |                  |
| Bilateral borrowings (note 15.1) | 440,760          | 514,220          |
| Due to banks (note 15.2)         | 1,393,914        | 981,420          |
| Repurchase agreements with banks | 1,994,310        | 1,152,119        |
|                                  | <b>3,828,984</b> | <b>2,647,759</b> |
| <b>By geographical area:</b>     |                  |                  |
| UAE                              | 1,268,254        | 855,329          |
| GCC                              | 3,597            | 25               |
| Europe                           | 1,818,218        | 1,230,240        |
| Americas                         | 295,052          | 440,760          |
| Others                           | 443,863          | 121,405          |
|                                  | <b>3,828,984</b> | <b>2,647,759</b> |

As at 31 December 2022, due to banks include cash collateral of **AED 74.3 million** (2021: AED 10.5 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 2,081.0 million** (2021: AED 1,345.3 million). The accounting policy pertaining to the treatment of these transactions is explained in note 4 (ab).

Due to banks include a Wakala borrowing amounting to **AED 19.7 million** (2021: nil) undertaken through a Shari'ah - compliant Islamic window, NBF Islamic.

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

| Loan no. | Year obtained | Maturity | Interest rate  | 2022<br>AED'000 | 2021<br>AED'000 |
|----------|---------------|----------|----------------|-----------------|-----------------|
| 1        | 2022          | Apr-23   | SOFR + Margin  | 91,825          | -               |
| 2        | 2022          | Apr-23   | SOFR + Margin  | 110,190         | -               |
| 3        | 2022          | May-23   | SOFR + Margin  | 55,095          | -               |
| 4        | 2022          | Jul-23   | SOFR + Margin  | 183,650         | -               |
| 5        | 2021          | Jun-22   | Libor + Margin | -               | 183,650         |
| 6        | 2021          | Mar-22   | Libor + Margin | -               | 183,650         |
| 7        | 2021          | Mar-22   | Libor + Margin | -               | 73,460          |
| 8        | 2020          | Mar-22   | Libor + Margin | -               | 73,460          |
|          |               |          |                | <b>440,760</b>  | <b>514,220</b>  |

15.2 Due to banks include gold related borrowings amounting to **AED 469.1 million** (2021: AED 185.5 million) utilized to finance gold loans extended to customers on a matched basis.

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

| AED'000                        | 2022              | 2021              |
|--------------------------------|-------------------|-------------------|
| <b>By type:</b>                |                   |                   |
| Demand and margin deposits     | 15,530,718        | 14,562,186        |
| Saving deposits                | 642,221           | 850,576           |
| Fixed term and notice deposits | 19,562,995        | 16,785,983        |
|                                | <b>35,735,934</b> | <b>32,198,745</b> |
| <b>By geographical area:</b>   |                   |                   |
| UAE                            | 33,171,083        | 29,200,200        |
| GCC                            | 1,379,432         | 1,440,749         |
| Europe                         | 1,031,666         | 1,005,404         |
| Americas                       | 11,234            | 27,132            |
| Others                         | 142,519           | 525,260           |
|                                | <b>35,735,934</b> | <b>32,198,745</b> |

16.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts (AED 387.4 million), Murabaha deposits (AED 1,048.7 million), Wakala deposits (AED 2,680.5 million) and Mudaraba deposits (AED 41.9 million) aggregating to AED 4,158.5 million (2021: AED 3,488.7 million) undertaken through a Shari'ah - compliant Islamic window, NBF Islamic.

**17. Other liabilities**

| AED'000   | 2022             | 2021           |
|---|------------------|----------------|
| Accrued interest / profit   | 190,926          | 77,504         |
| Employee end of service and other long term benefits (note 17.1)  | 67,298           | 57,779         |
| Accrued expenses  | 126,989          | 70,410         |
| Board Committees attendance allowances                            | 5,500            | 4,400          |
| Fair value of derivatives   | 162,411          | 160,102        |
| Allowances for impairment for off-balance sheet items (note 12.1) | 100,609          | 88,042         |
| Others  | 370,457          | 306,364        |
|   | <b>1,024,190</b> | <b>764,601</b> |

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

| AED'000                  | 2022          | 2021          |
|--------------------------|---------------|---------------|
| At 1 January             | 57,779        | 55,465        |
| Charge for the year      | 22,322        | 15,419        |
| Payments during the year | (12,803)      | (13,105)      |
| At 31 December           | <b>67,298</b> | <b>57,779</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 2022, 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. 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% (2021: 3.5%).

## 18. Shareholders' equity

### 18.1 Share capital

| AED'000  | 2022             | 2021             |
|--|------------------|------------------|
| <i>Authorised, issued and fully paid:</i>  |                  |                  |
| 2,000,000,000 shares of AED 1 each<br>(2021: 2,000,000,000 shares of AED 1 each) | <b>2,000,000</b> | <b>2,000,000</b> |

Pursuant to the requirements of the Central Bank of the UAE notice number CBUAE/BSN/2021/2200 dated 25 April 2021 pertinent to 'Minimum Capital for Banks Regulation' (circular number 12/2021) and following the approval by shareholders at the General Assembly Meeting in September 2021, the Bank increased its paid-up capital by way of issuing 85,238,116 bonus shares from retained earnings to reach AED 2 billion.

### 18.2 Proposed cash dividends and bonus issue

The Board of Directors proposed a distribution of bonus shares of **6.0%** (2021: nil) of share capital for the year ended 31 December 2022. However, no cash dividends were proposed for the year (2021: nil). This distribution will be executed on approval by the shareholders at the Annual General Assembly Meeting (AGAM).

### 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 AGAM upon the proposal of the Board of Directors.

## 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 which has been classified as equity in accordance with IAS 32: Financial Instruments – Classification. These securities are perpetual, subordinated and unsecured. The Bank can elect not to pay a coupon at its own discretion and has an option to call back the securities in addition to allowing the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of CBUAE. The transaction costs relating to the issuance were accounted for as a deduction from equity.

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

| AED'000  | 2022             | 2021             |
|--|------------------|------------------|
| Loans and advances and Islamic financing receivables (note 20.1)     | <b>1,364,829</b> | 1,099,896        |
| Due from banks including the Central Bank of the UAE CDs (note 20.1) | <b>123,195</b>   | 24,285           |
| Investments and Islamic instruments (note 20.2)                      | <b>209,055</b>   | 88,140           |
|  | <b>1,697,079</b> | <b>1,212,321</b> |

20.1 Includes income from Islamic financing activities amounting to **AED 182.6 million** (2021: AED 138.0 million) for the year ended 31 December 2022.

20.2 Includes income from Islamic investment activities amounting to **AED 15.6 million** (2021: AED 9.9 million) for the year ended 31 December 2022.

## 21. Interest expense and distribution to Islamic depositors

| AED'000   | 2022           | 2021           |
|---|----------------|----------------|
| Due to banks including term borrowings                      | <b>109,611</b> | 31,850         |
| Customer deposits and Islamic customer deposits (note 21.1) | <b>366,292</b> | 239,332        |
|   | <b>475,903</b> | <b>271,182</b> |

21.1 Includes distribution to Islamic depositors amounting to **AED 82.7 million** (2021: AED 39.6 million) for the year ended 31 December 2022.

## 22. Net fees and commission income

| AED'000                                  | 2022           | 2021           |
|--|----------------|----------------|
| <b>Fees and commission income</b>        |                |                |
| Letters of credit                        | 102,119        | 86,538         |
| Letters of guarantee                     | 54,437         | 58,396         |
| Lending fees                             | 166,151        | 143,573        |
| Asset management and investment services | 1,639          | 1,983          |
| Commission on transfers                  | 40,174         | 35,614         |
| Others                                   | 18,820         | 19,334         |
| <b>Total fees and commission income</b>  | <b>383,340</b> | <b>345,438</b> |
| <b>Fees and commission expense</b>       |                |                |
| Brokerage expense                        | 10,122         | 7,610          |
| Card related charges                     | 31,968         | 29,283         |
| Other charges                            | 8,701          | 12,085         |
| <b>Total fees and commission expense</b> | <b>50,791</b>  | <b>48,978</b>  |
| <b>Net fees and commission income</b>    | <b>332,549</b> | <b>296,460</b> |

## 23. Foreign exchange and derivatives income

| AED'000                 | 2022           | 2021           |
|-------------------------|----------------|----------------|
| Foreign exchange income | 153,174        | 104,250        |
| Derivatives income      | 28,203         | 9,942          |
|                         | <b>181,377</b> | <b>114,192</b> |

## 24. Other operating income

| AED'000                                | 2022          | 2021          |
|--|---------------|---------------|
| Rental income                          | 151           | 168           |
| Rebates                                | 9,854         | 8,900         |
| Other miscellaneous income (note 24.1) | 50,714        | 38,776        |
|  | <b>60,719</b> | <b>47,844</b> |

24.1 Other miscellaneous income includes recovery against bad debts amounting to AED 28.6 million (2021: AED 11.4 million) for the year ended 31 December 2022.

## 25. Employee benefits expense

Employee benefits expense includes employee bonus of AED 34.8 million (2021: AED 11.5 million). The number of employees at 31 December 2022 was 763 including 632 employed by the Bank of which 307 were UAE nationals (2021: 716 including 589 employed by the Bank of which 274 were UAE nationals).

## 26. 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 2022 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

## 27. Social contributions

The social contributions made during the year to various beneficiaries amount to AED 5.7 million (2021: AED 4.2 million).

## 28. Net impairment losses

| AED'000   | 2022           | 2021           |
|---|----------------|----------------|
| Loans and advances and Islamic financing receivables, acceptances, other assets and off-balance sheet items | 890,170        | 841,758        |
| Due from banks and financial institutions   | (2,852)        | (2,943)        |
| Investments and Islamic instruments   | 8,720          | 1,581          |
|   | <b>896,038</b> | <b>840,396</b> |

## 29. Earnings per share

The calculation of earnings per share is based on net profit of **AED 264.9 million** (2021: AED 39.7 million), after deduction of **AED 75.5 million** (2021: AED 75.5 million of additional Tier 1 capital securities coupon payment) of additional Tier 1 capital securities coupon payment divided by the weighted average number of shares of **2,000.0 million** (2021: 2,000.0 million shares after adjusting for bonus shares) outstanding during the year.

## 30. 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 shareholders and directors who are shareholder related parties, are as follows:

| AED'000   | 2022         | 2021         |
|---|--------------|--------------|
| <b>Statement of financial position items</b>                                |              |              |
| Loans and advances and Islamic financing receivables                        | 3,583,048    | 3,534,719    |
| Customer deposits and Islamic customer deposits                             | 8,814,053    | 7,998,573    |
| Investments and Islamic instruments   | 147,650      | 75,449       |
| Acceptances   | 21,095       | 33,988       |
| Tier 1 capital securities   | 293,840      | 293,840      |
| <b>Contingent liabilities</b>   |              |              |
| Letters of credit   | 56,093       | 65,669       |
| Financial guarantees and other direct credit substitutes                    | 58,085       | 59,572       |
| Transaction related contingencies   | 269,644      | 276,729      |
| AED'000   | 2022         | 2021         |
| <b>Statement of changes in equity items</b>                                 |              |              |
| Tier 1 capital securities coupon paid                                       | 17,264       | 17,264       |
| <b>Statement of income items</b>  |              |              |
| Interest income and income from Islamic financing and investment activities | 130,889      | 74,373       |
| Interest expense and distribution to Islamic depositors                     | 183,132      | 128,041      |
| Other income  | 10,619       | 11,449       |
| Operating expenses  | 29,038       | 17,687       |
| <b>Key management compensation</b>  |              |              |
| Salaries and other short-term benefits                                      | 24,607       | 21,566       |
| Employee end of service benefits  | 1,249        | 769          |
| <b>Board Committees attendance allowances</b>                               | <b>5,500</b> | <b>4,400</b> |

No stage 3 provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables given to related parties (2021: nil).

The loans and advances and Islamic financing receivables given to related parties amounting to **AED 3,583.0 million** (2021: AED 3,534.7 million) have been secured against collateral amounting to **AED 2,219.0 million** (2021: AED 1,862.5 million).

During the year, capital expenditure transactions with related parties amounted to **AED 2.2 million** (31 December 2021: AED 1.5 million).

### 31. 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   | 2022             | Restated<br>2021 |
|---|------------------|------------------|
| Cash on hand  | 381,485          | 272,685          |
| Balances with the Central Bank of the UAE           | 2,499,098        | 3,887,849        |
| Due from banks with less than three months maturity | 1,394,215        | 1,360,922        |
|   | <b>4,274,798</b> | <b>5,521,456</b> |

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

Based on residual maturities, cash on hand, balances with the Central Bank of the UAE and due from banks amounting to **AED 5,141.6 million** are maturing within three months from 31 December 2022 (AED 6,975.3 million maturity within three months from 31 December 2021).

### 32. 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, Product Development, Legal, Credit and Internal Audit. The shared services costs are allocated to business segments based on transaction and relevant drivers.

The segment analysis based on business segments is as follows:

| 2022<br>AED'000                 | Corporate and<br>institutional segment | Business<br>banking segment | Retail<br>banking | Treasury, ALM<br>and others | Consolidated      |
|---------------------------------|--|-----------------------------|-------------------|-----------------------------|-------------------|
| Segment revenue                 | 738,713                                | 598,481                     | 159,230           | 318,163                     | <b>1,814,587</b>  |
| Segment operating cost          | (200,284)                              | (241,464)                   | (100,570)         | (35,850)                    | <b>(578,168)</b>  |
| <b>Segment operating profit</b> | <b>538,429</b>                         | <b>357,017</b>              | <b>58,660</b>     | <b>282,313</b>              | <b>1,236,419</b>  |
| Net impairment losses           | (791,352)                              | (81,317)                    | (13,671)          | (9,698)                     | <b>(896,038)</b>  |
| <b>Profit / (loss)</b>          | <b>(252,923)</b>                       | <b>275,700</b>              | <b>44,989</b>     | <b>272,615</b>              | <b>340,381</b>    |
| Segment assets                  | 18,185,713                             | 6,961,737                   | 4,098,646         | 18,378,172                  | <b>47,624,268</b> |
| Segment liabilities             | 24,627,025                             | 10,182,512                  | 3,425,727         | 3,538,540                   | <b>41,773,804</b> |
| Capital expenditure             | -                                      | -                           | -                 | 83,685                      | <b>83,685</b>     |

| 2021<br>AED'000                 | Corporate and<br>institutional segment | Business<br>banking segment | Retail<br>banking | Treasury, ALM<br>and others | Consolidated      |
|---------------------------------|--|-----------------------------|-------------------|-----------------------------|-------------------|
| Segment revenue                 | 550,985                                | 488,000                     | 144,394           | 258,547                     | <b>1,441,926</b>  |
| Segment operating cost          | (154,561)                              | (201,690)                   | (98,231)          | (31,801)                    | <b>(486,283)</b>  |
| <b>Segment operating profit</b> | <b>396,424</b>                         | <b>286,310</b>              | <b>46,163</b>     | <b>226,746</b>              | <b>955,643</b>    |
| Net impairment losses           | (791,846)                              | (34,992)                    | (11,610)          | (1,948)                     | <b>(840,396)</b>  |
| <b>Profit / (loss)</b>          | <b>(395,422)</b>                       | <b>251,318</b>              | <b>34,553</b>     | <b>224,798</b>              | <b>115,247</b>    |
| Segment assets                  | 18,701,773                             | 6,232,420                   | 3,507,199         | 14,504,156                  | <b>42,945,548</b> |
| Segment liabilities             | 23,885,446                             | 8,415,289                   | 2,424,986         | 2,544,164                   | <b>37,269,885</b> |
| Capital expenditure             | -                                      | -                           | -                 | 55,705                      | <b>55,705</b>     |

### 33. Zakat payable

In line with the CBUAE regulations and The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Shari'ah standards, zakat payable amounting to AED 1.39 million, had been reflected in the 31 December 2020 consolidated financial statements as an appropriation from retained earnings. However, pursuant to the CBUAE notice CBUAE/BSD/N/2021/956 dated 16 February 2021 regarding the cancellation of the resolution pertinent to the transfer of Zakat monies to the Zakat Fund in the United Arab Emirates (UAE), zakat payable of the same amount had been reversed back to retained earnings during Q1 2021.

Zakat payable by shareholders amounting to [AED 0.0022](#) per share is computed based on "Net Invested Funds Method" in accordance with AAOIFI standards and the advice of Internal Shari'ah Supervision Committee (ISSC). The Articles of Association of the bank do not require the bank to pay Zakat on behalf of shareholders. Consequently, distribution of Zakat is the responsibility of the shareholders.

### 34. Comparative figures

Comparative figures have been reclassified in accordance with IAS 1 'Presentation of financial statements' in order to conform with the presentation for the current year.

#### *Consolidated statement of financial position*

Investments and Islamic instruments measured at fair value and amortised cost have historically been presented as one line on the consolidated statement of financial position. As at 31 December 2022, Investments and Islamic instruments have been separately presented as Investments and Islamic instruments - fair value of AED 2,533.7 million and Investments and Islamic instruments - amortised cost of AED 1,840.7 million. As at 1 January 2021, Investments and Islamic instruments - fair value were AED 4,012.9 million and Investments and Islamic instruments - amortised cost were AED 1,174.2 million.

Acceptances (2021: AED 1,653.2 million) which were previously classified within other assets / other liabilities have now been presented separately on the consolidated statement of financial position. As at 1 January 2021, acceptances amounted to AED 1,643.7 million.

Intangible assets (2021: AED 76.8 million) had been previously presented within property and equipment. As at 31 December 2022, the intangible assets have been presented as a separate line item in the consolidated statement of financial position. As at 1 January 2021, intangibles assets amounted to AED 47.4 million.

As at 31 December 2022, the order of liquidity of the consolidated statement of financial position was changed to reflect acceptances and other assets above property and equipment.

#### *Consolidated statement of cash flows*

During the year, it was noted that due to banks maturing within 3 months were included in cash and cash equivalents. Following from the discussions at the IFRS International Interpretation Committee, it was concluded that certain amounts under due to banks should not be shown as part of cash and cash equivalents. As such, the cash and cash equivalents balance increased by AED 241.8 million as at 1 January 2021 and by AED 981.4 million as at 31 December 2021.