



ANNUAL REPORT 2023

YOUR PARTNER IN SUCCESS

ANNUAL
REPORT
2023



H.H. SHEIKH MOHAMED BIN ZAYED AL NAHYAN
PRESIDENT OF THE UAE AND RULER OF ABU DHABI



H.H. SHEIKH MOHAMMED BIN RASHID AL MAKTOUM

VICE PRESIDENT AND PRIME MINISTER OF THE UAE
AND RULER OF DUBAI



H.H. SHEIKH MANSOUR BIN ZAYED AL NAHYAN

UAE VICE PRESIDENT, DEPUTY PRIME MINISTER
AND CHAIRMAN OF THE PRESIDENTIAL COURT



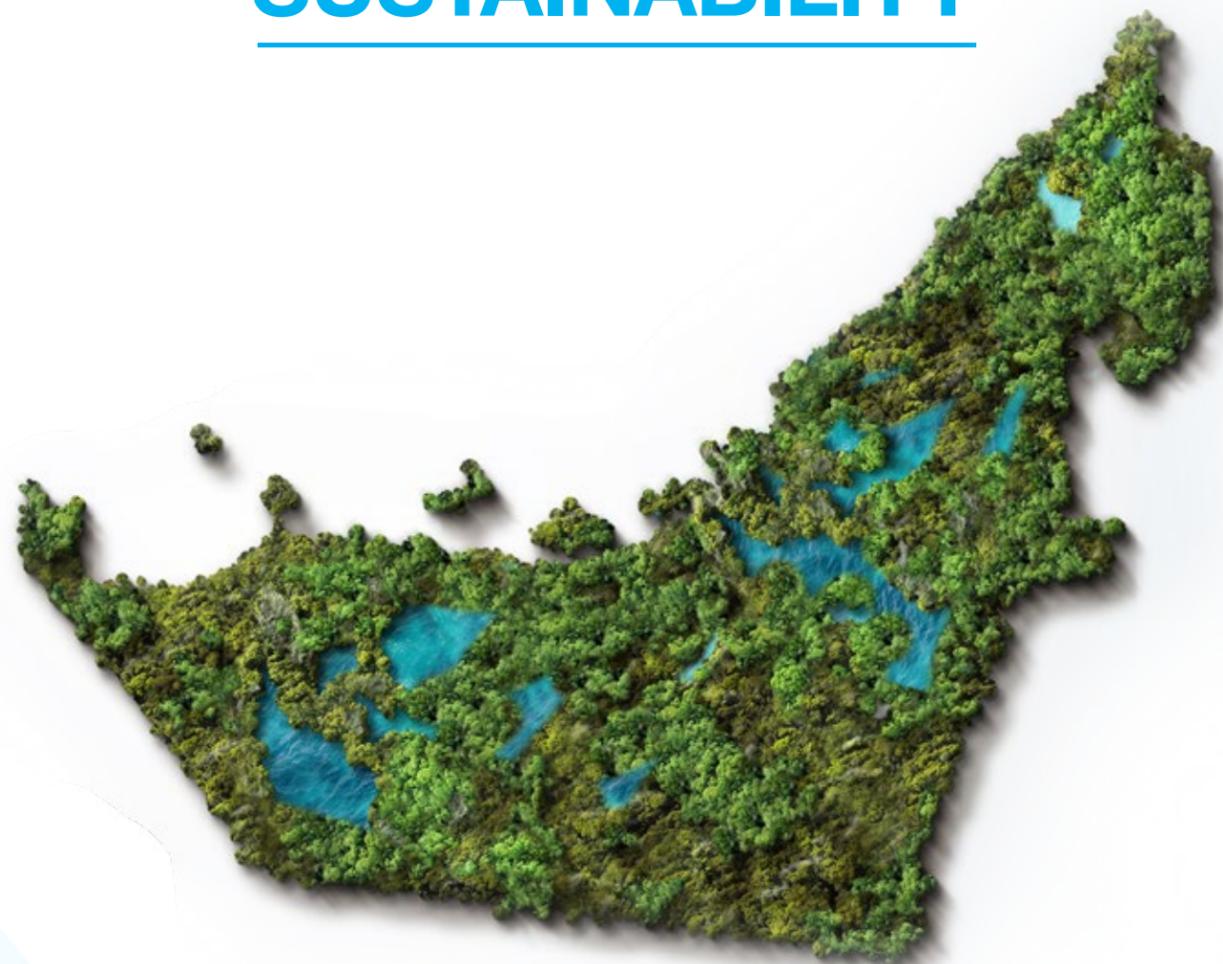
H.H. SHEIKH HAMAD BIN MOHAMMED AL SHARQI
MEMBER OF THE SUPREME COUNCIL OF THE UAE
AND RULER OF FUJAIRAH

CONTENTS

STRATEGIC REPORT	1
DIRECTORS' REPORT	7
CORPORATE GOVERNANCE REPORT	19
SUSTAINABILITY REPORT	41
INTERNAL SHARI'AH SUPERVISION COMMITTEE REPORT	45
INDEPENDENT AUDITOR'S REPORT	49
GROUP FINANCIAL STATEMENTS	53

- CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- CONSOLIDATED STATEMENT OF INCOME
- CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
- CONSOLIDATED STATEMENT OF CASH FLOWS
- CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR OF SUSTAINABILITY



Sustainability has been a fundamental principle in the UAE since its unification. The nation continues to serve as an exceptional model for environmental conservation and resource management. The late Sheikh Zayed was a global leader in environmental and climate action, leaving behind a legacy that we continue to follow today.”

.....
H.H. Sheikh Mohamed bin Zayed Al Nahyan
President of the UAE
and Ruler of Abu Dhabi



The UAE is at the forefront of global efforts to create a more sustainable future for all of humanity by taking concrete action to transition to renewable energies and combat climate change. In 2023, the UAE’s Year of Sustainability, and the year in which we hosted COP28, we continue to place sustainability at the heart of our development plans and make new strides in shaping a truly environmentally friendly economy.”

.....
H.H. Sheikh Mohammed bin Rashid Al Maktoum
Vice President and Prime Minister of
the UAE and Ruler of Dubai

In line with the UAE’s ‘Year of Sustainability’, the National Bank of Fujairah (NBF) accelerated its mission to become a regional frontrunner in sustainable finance. In the year of its COP28 presidency, the UAE sought to inspire collective action through a national commitment to sustainable practices. It also sought to foster global collaboration in a bid to find and encourage innovative solutions to the climate crisis. NBF is very much a part of this ongoing collective initiative.

Under the theme ‘Today for Tomorrow’, the ‘Year of Sustainability’ included initiatives, activities and events that drew upon the UAE’s values of sustainability and the legacy of its founding president, the late Sheikh Zayed bin Sultan Al Nahyan. The UAE was the first country in the GCC to commit to achieving net zero by 2050. The UAE Net Zero 2050 strategic initiative has galvanised the country’s efforts to reduce emissions and it has adopted a whole-of-government approach to the climate crisis.

Combatting climate change is not just a national priority, it is a necessity for companies too. Businesses have a huge role to play in combatting climate change and NBF has risen to that challenge. Sustainability has long been a priority for the bank, and in 2023 NBF augmented its focus on transitioning to a low carbon future. That meant utilising renewable energy, reducing carbon intensity in its operations, embracing sustainable practices, and enhancing sustainable finance in the form of investment, loans, and advances. It also meant engaging with customers to create awareness and supporting them in their sustainability journey. To learn more about the bank’s sustainability commitments, see the Sustainability Report in section four.

STRATEGIC REPORT

Over the course of 40 years, NBF has built an enviable reputation as one of the UAE's most well-respected banks. With award-winning services, an unrivalled understanding of local markets, and an unwavering commitment to customer care, it has built client relationships that have stood the test of time.

Maintaining the bank's strategic direction, during 2023 NBF refreshed its vision, mission and values to highlight its commitment to sustainability, a broader focus on the retail business, and renewed emphasis on customer service differentiation.

VISION



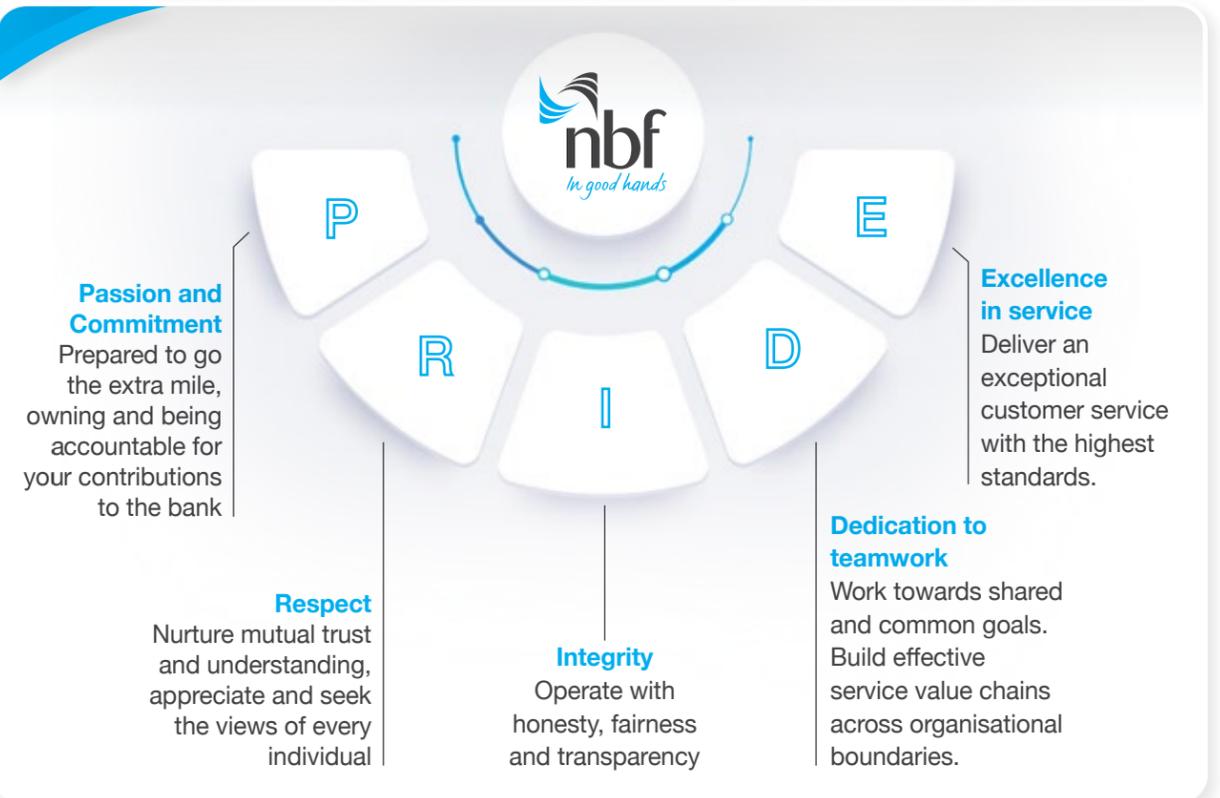
Your financial partner focused on your business and personal needs.

MISSION



- To provide our customers with exceptional financial service.
- To foster a strong sense of partnership through service and innovation.
- To deliver a stimulating working environment where individuals can tap into their potential to achieve new heights.
- To operate to the highest standard of professionalism, while contributing to the growth and advancement of our communities and to support all stakeholders in their sustainability journeys.
- To provide sustainable returns to our shareholders.

VALUES



NBF INTRODUCTION

Known for excellence in corporate and business banking, trade finance and treasury, NBF has expanded its portfolio to include a comprehensive suite of retail banking products and Shari’ah-compliant services. The bank’s commitment to the economic development of Fujairah and the UAE is second to none, and is evident through the bank’s support of local industries. These diverse industries range from energy and marine to precious metals and diamond, services, manufacturing, construction, education, and healthcare. Its segmented focus has also allowed the bank to develop a solid track record of deep market insight, exceptional service, and innovation tailored to individual needs.

NBF plays an active role in the development of a progressive and inclusive culture. A culture that celebrates diversity, champions innovation, and is at the forefront of sustainable finance. It also seeks to develop lasting relationships with its customers as the bank helps them leverage growth opportunities in an ever-changing marketplace. NBF is also committed to the creation of a stimulating work environment and to the personal and professional development of all its staff.

OUR NETWORK

NBF is headquartered in Fujairah and has 14 branches across the UAE. It also has 52 independent ATMs and CDMs spread across the country. NBF Financial Services FZC, a subsidiary of NBF, was established in 2004 and provides key support services. Another subsidiary, NBF Markets (Cayman) Ltd, is registered in the Cayman Islands and provides support services related to foreign exchange and derivative transactions.

OUR HISTORY

Following the issuing of an Emiri decree by the Ruler of Fujairah, His Highness Sheikh Hamad bin Mohammed Al Sharqi, NBF was established in 1982. It received its banking license from the Central Bank of the UAE (CBUAE) in August 1984 and is a public joint stock company. NBF began operations as a full service bank on 20 September the same year and was listed on the Abu Dhabi Securities Exchange in 2005 under the acronym NBF. 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 a proud proponent of Fujairah’s cultural heritage.



NBF AT A GLANCE

NBF provides a full suite of banking services, including treasury and trade finance, and corporate and commercial banking. It also offers a growing range of personal banking options and Shari’ah-compliant services.

1984
STARTED OPERATIONS



14
BRANCHES



42,000
CUSTOMERS

AED 2.3bn
OPERATING INCOME
(2022: 1.8bn)

AED 1.6bn
OPERATING PROFIT
(2022: 1.2bn)

2 SUBSIDIARIES & REPRESENTATIVE OFFICES

BBB+/A-
CREDIT RATINGS

802 EMPLOYEES

74% EMPLOYEE ENGAGEMENT SCORE

33 CUSTOMER NATIONALITIES

45% FEMALE WORKFORCE

41.1% EMIRATISATION RATIO

	CORPORATE SERVICES	RETAIL SERVICES
NPS CONVENTIONAL BANKING	47	51
NPS ISLAMIC BANKING	45	63

6 REGULATORY RELATIONSHIPS

KEY PERFORMANCE METRICS

11.68%

RETURN ON AVERAGE EQUITY
(2022: 5.91%)

1.46%

RETURN ON AVERAGE ASSETS
(2022: 0.75%)

223K+

SOCIAL MEDIA

NBF BUSINESS MODEL

NBF provides wholesale 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, healthcare, and Islamic banking.



Our stakeholder impact

- a: Our customers**
We always value our customers by providing excellent services because it is they who are responsible for our continued wellbeing
- b: Our employees**
We endeavour to create the best working environment for our people in order to ensure their and our best performance
- c: Our partners**
Our strong partnerships help us achieve exceptional growth and success
- d: Our shareholders**
We aim to deliver the best sustainable returns to our investors
- e: Our communities**
We are proud to positively support the community and make a difference

AWARDS 2023

- Best Commercial Bank UAE**
MEA Finance Industry Awards 2023
- Best SME Bank UAE**
MEA Finance Industry Awards 2023
- Best Trade Finance Provider**
MEA Finance Industry Awards 2023
- Most Innovative Trading Platform**
MEA Finance Banking Technology Awards 2023
- Best Innovation in Trade Finance**
MEA Finance Banking Technology Awards 2023
- Best Islamic Window UAE**
International Finance Awards 2023
- Best Fraud & Risk Management Solutions Award**
Banking AI and Analytics Summit & Awards 2023
- Best Change Management Initiative**
CIPD Middle East People Awards 2023
- Elite Quality Recognition Award 2023**
JP Morgan

AWARDS 2022

- Best Commercial Bank UAE**
MEA Finance Industry Awards 2022
- Best SME Bank UAE**
MEA Finance Industry Awards 2022
- Most Innovative Trading Platform – NBFX**
MEA's Finance Banking Technology Awards 2022
- Best Innovation in Trade Finance**
MEA's Finance Banking Technology Awards 2022
- Best Cyber Assurance and Resiliency Capabilities at the Wealth & Investment Summit 2022**
MEA Finance
- Best Trade Finance Provider**
MEA Finance Industry Awards 2022

AWARDS 2021

- Best SME Bank**
MEA Finance Awards 2021
- Best Trade Finance Provider**
MEA Finance Awards 2021
- Dubai Chamber CSR label MEA Finance**
Dubai Chamber of Commerce and Industry
- Most Innovative Emerging Technology Implementation**
Banking Technology Awards 2021

DIRECTORS' REPORT

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

STATEMENT FROM THE CHAIRMAN

We are pleased with the exceptional set of results achieved by NBF in 2023. The bank posted its highest ever operating income, its best ever operating profit, and achieved year-on-year net profit growth of 113 per cent to report a record result of AED 725.1 million compared with AED 340.4 million in 2022. These are figures we should all be immensely proud of, especially given the challenging global conditions and continued inflationary pressures.

NBF demonstrated an unwavering commitment to its core values and strategic objectives throughout 2023, delivering this record-breaking financial performance and building on its steadfast dedication to service excellence. Its results reflect the high level of resilience in the bank's core business, selective business growth, the high interest rate environment, sound capital and asset quality, and careful management of costs.

The global economy was shaped by supply chain disruptions and inflationary pressures, with the conflict in Ukraine contributing to increased food and energy prices. These negative implications were further fuelled by growing regional crises. Given its positioning as a safe haven, the UAE's real GDP was expected to grow by 3.5 per cent in 2023, according to the IMF, with inflation contained at around 3 per cent. That growth was driven by a substantial increase in oil and gas production, as well as trade, retail sales, residential real estate, and tourism.

In line with the further integration of enhanced technology into NBF's services, the bank accelerated its digital transformation in 2023. The bank went live with its pilot digital onboarding for business customers, enhanced its data enrichment and insights platform, and improved its employee experience with the roll out of a digital experience tool. It also invested in advanced technologies, including the use of AI in a number of processes to enrich its customer experience and enhance its operational efficiency.

With the UAE presiding over COP28 during the Year of Sustainability, the bank made significant strides in supporting sustainable initiatives. NBF is also proud to contribute to the UAE Banks Federation's pledge to mobilise AED 1 trillion in sustainable finance by 2030, announced during COP28. By the close of 2023, 6.59 per cent of NBF's investment portfolio was ESG-compliant, while lending to the socially important sectors of healthcare and education had reached AED 622 million.

The bank partnered with Living Business to provide sustainability guidance to businesses and doubled down on its commitment to causes around the world, donating to the victims of the earthquake in Turkey and Syria. It also held a Ramadan campaign in partnership with Fujairah Charity Association, and organised the 7th NBF Fujairah Annual Run, with around 3,000 runners joining.

A new cadre of UAE nationals graduated from the NBF Technology Academy; the bank collaborated with Al Etihad Payments to launch Aani Instant Payment Platform; and the bank continued to seek ways to boost the SME ecosystem and transactional banking. All of which was externally recognised with a range of prestigious awards, including Best Commercial Bank, Best SME Bank, and Best Trade Finance Provider at the MEA Finance Industry Awards 2023.

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; UAE Vice President, Deputy Prime Minister and Chairman of the Presidential Court, H.H. Sheikh Mansour Bin Zayed Al Nahyan; Member of the Supreme Council and Ruler of Fujairah, H.H. Sheikh Hamad Bin Mohammed Al Sharqi for their unequivocal support.

As always, I would like to thank NBF's Board of Directors, members of the Management Committee, and our employees for their continued hard work and dedication. Without their commitment, and without the support and trust of our customers and shareholders, 2023 would not have been the success it was. Given 2023's performance, the Board of Directors has proposed a distribution of profits of 15 per cent (2022: 6 per cent) of the paid-up capital. This will take the form of cash dividends of 10 per cent (2022: nil) and bonus shares of 5 per cent (2022: 6 per cent). We look forward to a rewarding year ahead and further growth and prosperity for all.



Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman
24 January 2024

STATEMENT FROM THE DEPUTY CHAIRPERSON

Underpinned by a healthy balance sheet, robust capital adequacy, sound improvement in asset quality, and success in leveraging technology, NBF delivered an outstanding financial performance in 2023. It has also set new standards in customer satisfaction, innovation, and dedication.

The bank's focus on a customer-centric approach, harnessing cutting-edge technology, and robust risk management policies are core pillars of NBF's long-term business strategy. Significant growth across the bank's operating and net performance coupled with an exceptional improvement in asset quality indicators also re-affirmed that NBF is on course to ensure long-term sustainable growth.

An operating profit of AED 1.6 billion (representing a rise of 28.1 per cent compared with AED 1.2 billion in 2022) was supported by higher net interest income, net income from Islamic financing, investment activities, and fee income. The bank's operating income of AED 2.3 billion, up 25.8 per cent compared with 2022, reflected a robust core business performance, proactive asset and liability management in a high interest rate environment, an enhanced focus on return on capital, and the bank's long-standing customer centric approach.

The bank's credit rating was upgraded by S&P during the year to BBB+ from BBB. JP Morgan also awarded NBF the 'Elite Quality Recognition Award' in recognition of its best-in-class straight-through processing. At the MEA Finance Industry Awards 2023, NBF was awarded Best Commercial Bank UAE, Best SME Bank UAE, and Best Trade Finance Provider, while a raft of other awards were also won during the year.

NBF's underlying resilience and its proactive approach in a challenging environment augurs well for 2024, despite the threat of global recession and rising geopolitical tensions. This year's performance was facilitated by the UAE's exemplary leadership and progress across its principal foundations, not least its robust economy, attractive investment environment, and its positioning as a safe haven in an uncertain world. It also gives me particular pleasure to note the bank's continued dedication to customer relationships and knowledge-sharing. The latter included NBF's annual Knowledge Series, which this year included sessions on the introduction of corporate tax, Islamic banking literacy, and sustainable finance.

In the year ahead, NBF will continue to enhance value creation and diversify revenue streams. It will seek to penetrate new niche markets, deepen customer relationships with a focus on transactional banking, optimise internal processes, and invest in best-in-class technology to become a truly digitally-enabled bank. NBF's business strategy will continue to be supported by a segmented approach to better serve its customer needs, with a focus on sustainability and socially important sectors such as education, healthcare, and housing.

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.



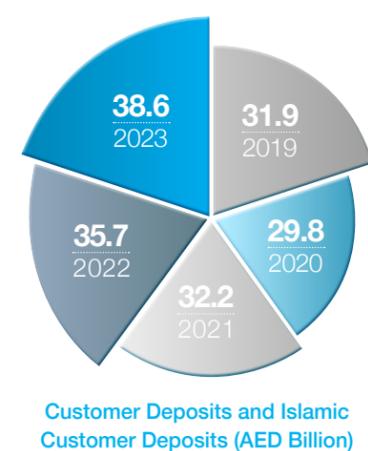
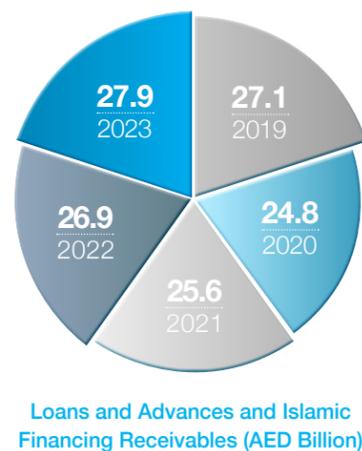
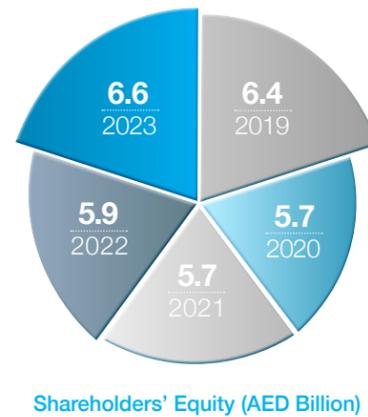
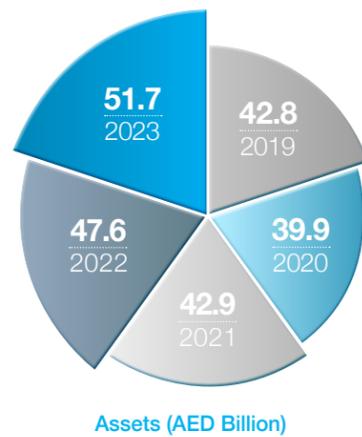
Dr. Raja Easa Al Gurg
Deputy Chairperson
24 January 2024

YEAR IN REVIEW

JANUARY	NBF partners with Lune Technologies to provide financial analytics solutions across the UAE
FEBRUARY	NBF and Yellow Door Energy sign a multimillion dirham agreement to finance solar projects in the UAE
MARCH	NBF launched its Sustainability Statement, which was approved by the bank's Board. NBF sponsors and participates in the Global Trade Facilitation Summit 2023, supporting the enhancement of the global trade ecosystem
APRIL	A long-term partnership with CleanMax to refinance its rooftop solar portfolio in the UAE is announced
MAY	Apple Pay and Google Pay are introduced, providing NBF's customers with a safer and more secure way to pay
JUNE	The NBF Technology Academy returns, providing in-depth training and progressive career opportunities for Emirati graduates
JULY	NBF launches its third annual Art Prize under the theme 'Time is Now'
AUGUST	The 12th edition of the bank's Management Training Programme kicks off and welcomes 19 new participants
SEPTEMBER	NBF sponsors the eighth edition of the Fujairah International Mining Forum
OCTOBER	NBF organises an educational programme for its Board of Directors, centred on important themes such as ESG, sustainable finance, and corporate tax. 17 Emiratis complete the 11th edition of the bank's year-long Management Training Programme
NOVEMBER	The seventh NBF Fujairah Run attracts close to 3,000 runners. The bank organises its Knowledge Series under the topic sustainable finance. Earlier events covered topics such as the introduction of corporate tax, Islamic banking literacy, and sustainable finance
DECEMBER	The bank pilots its digital onboarding platforms for personal loans and account opening. Both are available to conventional and Islamic clients and, once launched, will eliminate paper-based applications

FIVE-YEAR PERFORMANCE SCORECARD

2023 provided many challenges, but NBF managed to deliver significant year-on-year growth.



FINANCIAL PERFORMANCE

NBF's robust performance in 2023 reflected the bank's high level of resilience in its core business.

	2023 (AED Million)	2022 (AED Million)	(%) Change
Operating Income	2,283.0	1,814.6	25.8%
Operating expense	(698.9)	(578.2)	20.9%
Operating Profit	1,584.1	1,236.4	28.1%
Net impairment losses	(859.0)	(896.0)	-4.1%
Profit for the year	725.1	340.4	113.0%
Loans and advances and Islamic financing receivables	27,903.7	26,914.9	3.7%
Customer deposits and Islamic customer deposits	38,572.0	35,735.9	7.9%
Total assets	51,719.8	47,624.3	8.6%
Recoveries	174.0	145.3	19.8%
Cost-to-income ratio	30.6%	31.9%	-1.2%
Total provisions coverage ratio	120.2%	110.0%	10.2%
Non-performing loans ratio	4.9%	6.9%	-2.0%
Return on average equity	11.7%	5.9%	5.8%
Return on average assets	1.5%	0.8%	0.7%

ECONOMIC OVERVIEW

2023 saw the global economy impacted by several key factors, including the aftermath of the Covid-19 pandemic, geopolitical tensions, supply chain disruptions, inflationary pressures, and the evolving energy landscape. Ongoing conflicts, including the Russia-Ukraine war, had significant economic repercussions, contributing to increased energy prices and further straining global supply chains. These geopolitical tensions were exacerbated by regional wars and the risk of further escalation.

Although not immune to global disruptions, the UAE demonstrated a robust economic performance, benefitting from increased oil prices and sustained efforts to diversify its economy. The nation's non-oil sectors, including tourism, real estate, and technology, drove much of the country's growth, while favourable government policies and strategic global partnerships enhanced the UAE's reputation as a global business hub.

NBF STRATEGY 2023

The bank sought to capitalise on the UAE's positive economic outlook in 2023. It tapped into new business opportunities, built on its ESG strategy, and secured a record set of results, improving its position among the most profitable local banks in the UAE. NBF's business strategy continued to revolve around client relationships, supported by a segmented approach that is designed to serve its customer needs. It also continued its digital transformation journey, further diversified its services, strengthened its commitment to sustainable, responsible and inclusive banking, and maintained its policy of prudent and transparent recognition of problem accounts.

As part of this strategy, NBF participated in a number of high-profile events, including the Global Trade Facilitation Summit 2023 and the 11th Gulf Intelligence Energy Markets Forum. It also organised its Knowledge Series 2023, which featured seven events attended by more than 1,000 customers and non-customers. The knowledge-sharing platform explored topics such as corporate tax, sustainable finance, and Islamic finance.

KNOWLEDGE SERIES 2023 ORGANISED BY NBF

ATTENDEES:
1,000+
customers and non-customers

TOPICS COVERED:
corporate tax, sustainable finance, and Islamic finance

CUSTOMER CENTRICITY

Delivering exceptional customer service remains NBF's foundational principle. From an increased focus on personalised banking solutions to responsive support systems, the bank developed strong partnerships built on

service, trust, and innovation, piloted digital onboarding, upgraded its mobile banking offering, and implemented a modernised retail banking app with enhanced features. This led to a customer satisfaction score (NPS) of 47 for corporate banking and 51 for retail banking services. The Islamic (NPS) recorded for the period was 45 for corporate banking and 63 for retail banking services.

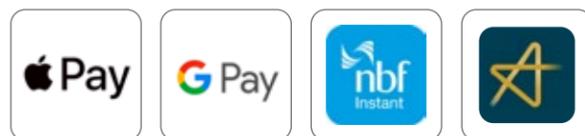
	CORPORATE SERVICES	RETAIL SERVICES
NPS CONVENTIONAL BANKING	47	51
NPS ISLAMIC BANKING	45	63

Consumer banking processes that ensure compliance with consumer protection regulations were implemented, significantly improving consumers' understanding of the products and services offered. The bank also continued to make processes more efficient, worked to minimise customer complaints, and improved the complaint resolution process. NBF AI Samy, a service designed to provide customers with convenience, flexibility, and tailored support, was introduced, while the bank relocated some ATMs and provided new offsite locations as part of its reach strategy.

DRIVING DIGITAL ADOPTION

NBF has embarked on a significant journey to drive digital adoption among its customers. In 2023, that included enhancing digital infrastructure, delivering customer-centric digital services, and promoting digital literacy and engagement. With a focus on exceptional customer service through digital adoption and innovation, the bank up-graded its NBF Instant app, NBF Direct, and NBF chatbot, continued to integrate the UAE Pass into its digital services, and strengthened its digital onboarding. It also piloted e-signatures and continued to use automation tools to improve customer experience. NBF Connect remained the focal point for interacting with the SME community.

NEW AND ENHANCED APPS



The bank partnered with Lune Technologies, an Emirati financial data analytics company, to develop and deploy its data enrichment and insights platform, and introduced CVVkey to tackle online card fraud. The former enables the provision of hyper-personalised, high-value financial services. NBF also continued to extend its digital banking solutions with the introduction of Apple Pay and Google Pay, and collaborated with AI Etihad Payments to launch the Aani Instant Payment Platform.

Wider fintech involvement included the UAE KYC Blockchain Platform (Norbloc), a national ecosystem for transferring verified 'know your customer' data between licensing authorities and financial institutions. The bank also enhanced its digital employee experience with the rollout of Nextthink. The tool provides the bank with a combination of real-time analytics, automations and employee feedback, helping it to measure and manage the digital employee experience. NBF's social media interactions increased to 223,113, while its online activity increased by 30 per cent.



CYBERSAFE AND SECURITY

NBF worked tirelessly to maintain and improve its information security in 2023, investing in cyber assurance and advanced security controls. Automation and the leveraging of AI and machine learning tools played a pivotal role, improving the bank's overall cyber resiliency and control capabilities, and significantly reducing the mean time to detect and respond to an attack. There were zero security breaches for the fourth successive year.

In 2023, a centre of excellence for cyber security was established, staffed with new Emirati talent. This centre's primary goal is to ensure robust cyber security across all of the bank's digital initiatives, with the Emirati team proficient in both offensive and defensive cyber security techniques. The provision of training related to data security and customer privacy increased from 80 hours to 100 hours.

One of the notable achievements of the bank was the effective use of advanced AI and machine learning tools to mitigate cyber attacks via email. The bank successfully reduced the incidence of harmful emails reaching end-users to less than one per cent. Additionally, the bank continues to excel in its phishing simulation initiatives, maintaining a trap rate of less than one per cent throughout 2023. This achievement reflects positively on the cyber security awareness and practices of the bank's staff and consultants.

A number of industry accolades were received, including the Best Fraud & Risk Management Solutions Award at the Middle East Banking Summit and Awards 2023. NBF was also named a 'Strategic Technology Finance Partner' by CyberKnight.

OUR PEOPLE, OUR STRENGTH

Talent is critical to the success of NBF. People are the bedrock on which the bank is built, with the success of NBF intricately linked to the skills and morale of its employees. NBF is focused on strengthening, empowering, and emboldening its workforce and has achieved 74 per cent engagement, enablement, and satisfaction amongst its employees.

This is above the GCC bank average. It is also committed to employee well-being, a safe and diverse workplace, and the creation of a working environment based on mutual respect.

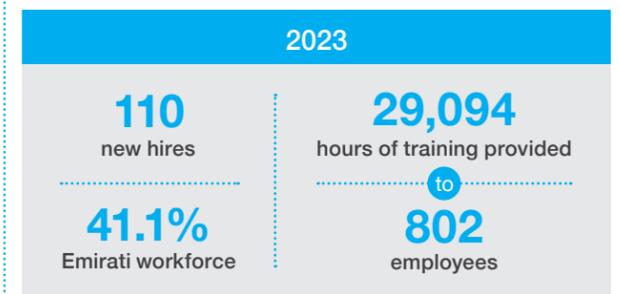


Diversity and inclusion encourage a culture of innovation, attract talent, and improve business performance across the board. A particular focus is the attraction and retention of Emirati talent. The NBF Technology Academy was launched in 2021. To date, 43 young Emiratis have benefitted from the academy's intensive training programme, which equips students with the knowledge and skills necessary to fulfil their career ambitions at the bank. The initiative contributes to both the growth of the UAE's economy and to NBF's strategy of Emiratisation. 11 young Emiratis graduated from the academy, while the bank's annual Management Training Programme welcomed 13 new participants in 2023. In addition, the bank participated in Ru'ya Careers UAE in Dubai and also took part in Tawdheef x Zaheb in Abu Dhabi. As of December 2023, Emiratis represented more than 41.1 per cent of NBF's workforce.



NBF introduced a new set of digital competencies that evaluate an individual's capabilities in terms of information and data literacy, communication and collaboration, safety, data science and fintech knowledge. Staff engagement activities, including an NBF Family Day, cricket and bowling tournaments, career advancement programme, and padel tournament were held throughout the year. In 2023, NBF was also awarded the 'Best Change Management Initiative' title by the CIPD Middle East People Awards, further reaffirming its efforts in this space.

The bank conducted its senior management succession development programme, selecting 14 employees for a comprehensive six-month journey involving thorough assessments and development activities. The talent management process underwent a significant transformation. Additionally, a comprehensive bank-wide and departmental team building workshops were attended by 450 employees and annual staff awards were distributed.



NBF'S SECTOR SPECIFIC EXPERTISE DIFFERENTIATES US FROM THE CROWD

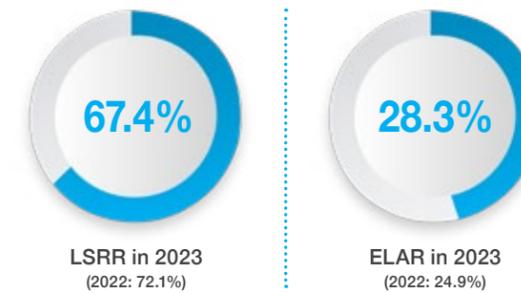
	Loans & Advances (Industry) 2023* % of total assets	Loans & Advances (NBF) 2023 % of total assets
 Agriculture	0.2%	0.0%
 Mining and Quarrying	2.0%	0.2%
 Manufacturing	5.5%	17.0%
 Electricity, Gas and Water	3.3%	1.5%
 Construction and Real Estate	15.8%	10.6%
 Trade	8.5%	29.8%
 Transport, Storage and Communication	6.7%	7.2%
 Financial Institutions (Excluding Banks)	11.0%	0.6%
 Government	11.1%	4.1%
 Personal Loans	26.1%	16.9%
 Others	9.8%	12.1%

*Industry numbers are as of 30th September 2023

BUSINESS PERFORMANCE

In 2023, NBF successfully navigated the complexities of the dynamic global financial and geopolitical landscape. In doing so, it achieved significant growth and maintained a steadfast commitment to innovation and customer service excellence.

Ample liquidity has been maintained with lending to stable resources ratio (LSRR) at 67.4 per cent (2022: 72.1 per cent), well below the Central Bank of the UAE's threshold of 100 per cent; and eligible liquid assets ratio (ELAR) at 28.3 per cent (2022: 24.9 per cent), well above the Central Bank of the UAE's minimum requirement of 10 per cent.



SEGMENT PERFORMANCE

CORPORATE AND INSTITUTIONAL BANKING

NBF's wholesale banking caters to the needs of corporate clients – principally those with a turnover above AED 400 million – and financial institutions. The segment represented 39.2 per cent of overall group operating income in 2023, compared with 40.7 per cent in 2022. Operating income for the segment stood at AED 894.6 million, up 21.1 per cent over 2022. Additionally, assets totalled AED 17.5 billion compared with AED 18.2 billion in 2022, and liabilities stood at AED 25.5 billion compared with AED 24.6 billion in 2022.

OPERATING INCOME



BUSINESS BANKING

NBF's business banking segment manages clients with a turnover of up to AED 400 million. NBF's business banking operations contributed 32.0 per cent to the group's overall operating income in 2023, compared with 33.0 per cent in 2022. Net profit for the segment reached AED 358.3 million, representing growth of 30.0 per cent on the previous year. The segment's assets totalled AED 7.7 billion in 2023 compared with AED 7.0 billion in 2022.

CONTRIBUTION TO THE GROUP'S OPERATING INCOME



RETAIL BANKING

Retail banking assets and liabilities grew to AED 4.5 billion compared with AED 4.1 billion in 2022 and AED 4.6 billion compared with AED 3.4 billion in 2022, respectively. Operating income for the segment was AED 185.6 million, an increase of 16.6 per cent compared with AED 159.2 million in 2022.

ASSETS	LIABILITIES
AED 4.5 BILLION 2023	AED 4.6 BILLION 2023
AED 4.1 BILLION 2022	AED 3.4 BILLION 2022

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

Treasury and ALM achieved a net profit of AED 422.4 million in 2023, compared with AED 272.6 million in 2022. Exchange and derivative income of AED 164.5 million was recorded, compared with AED 181.4 million in 2022. The bank recorded growth in its investment grade investment portfolio by 2.7 per cent which, combined with effective ALM, helped to improve the bank's interest margins to 3.32 per cent.

NBF ISLAMIC

Offering a wide range of Shari'ah-compliant products and services to consumer and corporate clients, NBF Islamic continued to strengthen its robust governance process in 2023. While adhering to Shari'ah compliance across all of its customer offerings, NBF Islamic witnessed growth in many segments, including retail, wholesale banking, and treasury. It also benefitted from the resultant diversified income streams, which helped the bank achieve its best operating income for NBF Islamic.

8.1% NBF Islamic customer deposits growth

12.2% NBF Islamic contribution to group assets

11.7% NBF Islamic contribution to group deposits

NBF Islamic constituted 12.2 per cent (2022: 10.6 per cent) of overall group assets and 11.7 per cent (2022: 11.6 per cent) of group deposits. NBF Islamic customer deposits rose by 8.1 per cent to reach AED 4.5 billion in 2023 (2022: 4.2 billion), while Islamic Financing facilities touched AED 3.8 billion (2022: AED 3.0 billion) increasing by 24.6 per cent. Operating income reached AED 156.6 million (2022: AED 122.9 million) registering an increase of 27.4 per cent.

ENTERPRISE RISK MANAGEMENT

NBF's enterprise-wide risk management framework outlines how the bank manages risk. The bank recognises that risk exists in all its activities and that this requires a clear and ordered approach to the identification, assessment, measurement, reporting and treatment of risks based on a clear statement of its risk appetite. To do this effectively, NBF utilises 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.

NBF's Board provides a clear operational structure for the group to manage risk in a manner that ensures the establishment of appropriate controls that are consistent with the bank's risk appetite, risk profile, and capital strength. In 2023, the bank continued to pursue a growth strategy that leveraged a diverse loan book and highly profitable business, albeit with effective control and risk management. It also introduced a sustainable finance framework approved by the risk committee.

COMPLIANCE

NBF implements stringent policies and processes to ensure compliance with all applicable UAE laws, CBUAE regulations,

and relevant global standards in respect of anti-money laundering ("AML") and counter terrorism financing ("CTF") as directed by its Board. NBF's AML/CTF program includes ongoing customer risk assessments, monitoring of client activities, and a process of continual improvement to ensure NBF mitigates the risk of facilitating financial crime. During 2023, the program was subject to a number of enhancements in line with the expectations of the CBUAE and consistent with UAE national objectives. NBF also actively managed conduct risk, including implementing compliance policies to supplement the code of conduct and ensure that positive customer outcomes are at the core of its client engagement.

THE YEAR AHEAD

With geopolitical tensions continuing into 2024 and global growth expected to fall, NBF will focus on growing its franchise on the back of strong liquidity and capital position. This will be achieved through the deepening of relationships with customers, the continued focus on customer experience, the advancement of NBF's digitally-enabled operating platform, the enhancement of existing business propositions, the further development of niche business areas, and a significant strengthening of the bank's product solution and transaction banking capabilities. Sustainability considerations will underpin the execution of this strategy, with environmentally friendly practices embedded across its operations, product

offerings, and business decisions. NBF's broader strategic direction will remain largely unchanged, with a continued focus on being among the top local banks for profitability, and delivering sustainable returns to shareholders.

GROWTH, DIVERSIFICATION, AND LEADERSHIP

NBF will continue to lead in the SME and commercial banking space, with a clear roadmap for digitally-enabled solutions and the scaling up of its operations. NBF will leverage its existing strengths while focusing on expanding into new segments such as education, healthcare, real estate, and non-bank financial institutions such as the insurance sector. It will also develop a bespoke proposition for under-served start-ups and new-to-country customers. The principal focus will remain on the development of product offerings in areas such as trade finance, cash management, and transaction services. Retail banking will continue its expansion, with an increase in services following the launch of NBF AI Samy. The bank will also develop digital products and services that meet the needs of its retail customers.

In the year ahead, the bank will launch a number of digital platforms, such as NBF Edge, an end-to-end digital account opening platform for business customers. It will also

further expand NBF Markets, a holistic trading platform for commodities and FX, and roll out the enhanced NBF loyalty program and rewards app designed to additionally benefit NBF customers. Significant enhancements will also be made to NBF Direct, with the app to provide an improved online banking experience. Work will also continue on the NBF Corporate online banking platform.

NBF will continue to strengthen its foundation, enhance customer experience, and develop talent for long-term success. The required investment will be induced to provide best-in-class digital capabilities and strengthen the bank's organisational structure.

PEOPLE FIRST

NBF will continue to place a profound emphasis on its employees. It will continue to foster a supportive and dynamic work environment, with a focus on nurturing talent, encouraging professional development, and ensuring a healthy work-life balance. NBF will also reinforce a culture of inclusion, diversity, and collaboration. The bank will continue to support the career aspirations of the nation's youth, developing their skills to prepare them for leadership roles within the bank as part of NBF's Emiratisation strategy.



CORPORATE GOVERNANCE REPORT

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

1. THE BANK'S APPROACH TO FULFILLING ITS CORPORATE GOVERNANCE OBLIGATIONS AND THE PRINCIPAL ACTIONS TAKEN IN 2023

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 is 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 regulatory requirements and 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 2023. 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 2023, 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. 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 individual and departmental objectives and are not determined by the profitability of the bank.

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, Liquidity, Funding (liability) and Interest Rate Risk.

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 bank 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.

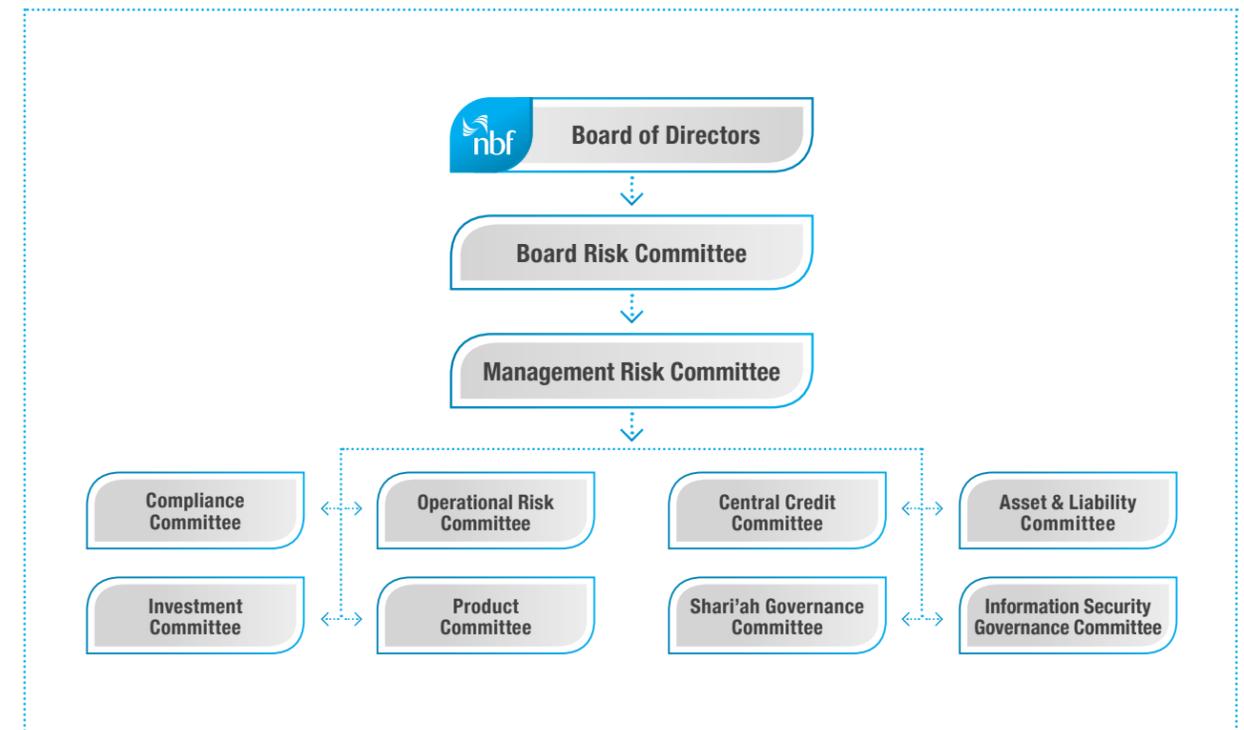
NBF has zero tolerance for non-compliance with its Risk Appetite, policies and procedures and strongly promotes a risk-based culture across the bank. The bank reinforces this through various channels that include communication of Risk Appetite and risk policies annually to all staff for mandatory reading, 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 2023

Name	Position / relationship	The shares owned as on 31/12/2023	Total sale	Total Purchase
Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	Chairman	-	-	-
Dr. Raja Easa Saleh Al Gurg	Deputy Chairperson	53,032	Nil	Nil
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	Member	-	-	-
Hussain Mirza Al Sayegh	Member	-	-	-
Saif Sultan Al Salami	Member	-	-	-
Mohamed Obaid Bin Majed Al Aleeli	Member	461,133	Nil	Nil
Abdulla Fareed Al Gurg	Member	-	-	-
Ahmed Saeed Al Raqbani	Member	-	-	-
Khalil Ebraheim Hassan Ahmed	Member	-	3	-

The above-mentioned Board members did not purchase any shares during the year 2023.

3. FORMATION OF THE BOARD OF DIRECTORS

A. The composition of the current Board of Directors

Name	Category (executive and non-executive, independent and non-independent)	Experiences and Qualifications	The period spent as a member of the bank's Board of Directors from the date of 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"> Chairman Non-Executive Member Non-Independent Member 	<ul style="list-style-type: none"> Completed standard military course from Royal Military Academy Sandhurst. Served in the UAE Armed Forces as a Colonel. 	Since 1984 40 years	-	<ul style="list-style-type: none"> 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 Department of Industry supervises all investments and industrial projects in the Emirate of Fujairah Chairman of Fujairah National Group

Dr. Raja Easa Saleh Al Gurg	<ul style="list-style-type: none"> Deputy Chairperson Non-Executive Member Non-Independent Member 	<ul style="list-style-type: none"> Holds an Honorary Doctorate in Literature from Amity University – India. Holds an Honorary Doctorate from Queen's University Belfast for economics. Graduated from the University of Kuwait in English Literature. 	Since 2020 4 years	-	<ul style="list-style-type: none"> Chairperson and Managing Director of Easa Saleh Al Gurg Group LLC Vice Chairperson of University of Dubai Chairperson of the Board of Directors of Al Jalila Foundation Board Member of the newly constituted Dubai Chambers Board Member of Dubai Women's Association Board of Directors of Dubai Academic Health Corporation Board Trustee for Mohammed Bin Rashid University of Medicine and Health Sciences Board of Trustees for Ajman University Board of Trustees of Hamdan Bin Mohammed Smart University Honorary Pro-Chancellor at Heriot Watt University Advisory Board of Coutts Bank, the wealth division of the Royal Bank of Scotland Group
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	<ul style="list-style-type: none"> Board Member Non-Executive Member Independent Member 	<ul style="list-style-type: none"> Bachelor in Business Administration & HR, Higher Colleges of Technology 	Since 2014 10 years	-	<ul style="list-style-type: none"> Chairman of Al Sharq Health care (The Health care group of Fujairah National Group) Chairman of Fujairah National Industries (The industries Group of Fujairah National Group) Vice-Chairman of Fujairah National Group
Hussain Mirza Al Sayegh	<ul style="list-style-type: none"> Board Member Non-Executive Member Non-Independent Member 	<ul style="list-style-type: none"> Master Degree in International Relations - University of Southern California (UK Programme) London; Bachelor Degree in Business Administration - University of Jordan 	Since 1992 32 years	-	<ul style="list-style-type: none"> Chairman, Union Cement Co., Ras Al Khaimah Board Trustees of Mohammed Bin Rashid Humanities Society

Saif Sultan Abdulla Al Salami	<ul style="list-style-type: none"> Board Member Non-Executive Member Non-Independent Member 	<ul style="list-style-type: none"> Master in Computer Engineering – Florida Institute of Technology, USA Bachelor in Electrical Engineering, – Florida Institute of Technology, USA 	Since 1999 25 years	Board Member of Fujairah National Insurance Company	<ul style="list-style-type: none"> Group CEO of Fujairah National Group Director of GPS Chemoil LLC FZC
Mohamed Obaid Bin Majed Al Aleeli	<ul style="list-style-type: none"> Board Member Non-Executive Member Non-Independent Member 	<ul style="list-style-type: none"> Master Degree in Management Technology, University of Wisconsin, USA Bachelor Degree in Industrial Technology, University of Wisconsin, USA 	Since 1993 31 years	-	<ul style="list-style-type: none"> General Director -Department of Industry and Economy – Government of Fujairah Member of the Economic Integration Committee – Ministry of Economy, UAE Member of Federal Committee of Industrial Development in the UAE - Ministry of Industry & Advanced Technology Board member of the Standards and Specifications Authority, UAE Member of the Foreign Trade Committee - Ministry of Economy, UAE
Abdulla Fareed Al Gurg	<ul style="list-style-type: none"> Board Member Non-Executive Member Non-Independent Member 	<ul style="list-style-type: none"> Master Degree in Management Concepts from Regis University, Denver, Colorado Bachelor degree in Marketing and Management from the American University of Sharjah 	Since 2014 10 years	-	<ul style="list-style-type: none"> Chairman of Abdulla Al Gurg Global Investments OPC LLC CEO of Easa Saleh Al Gurg Group Private Investment Vice President of Emirates E-Sports Association, Chairman of the Advisory Board and a Member of its Executive Office Chairman of VITA Investment in Healthcare Enterprises & Development LLC Board Member of Easa Saleh Al Gurg Group (ESAG) Board Member of Al Gurg Fosroc Board Member of Siemens Energy Board Member of Siemens Healthineers Board Member of Siemens Industrial

					<ul style="list-style-type: none"> Board Member of Siemens Mobility Board Member of Al Gurg Smollan Board Member of Al Gurg Unilever Board Member of Akso Nobel Decorative Paints
Ahmed Saeed Al Raqbani	<ul style="list-style-type: none"> Board Member Non-Executive Member Independent Member 	<ul style="list-style-type: none"> MBA from London Business School (LBS) B.Eng in Civil Engineering from University College London (UCL) 	Since 2016 8 years	Chairman of Fujairah Building Industries PJSC	<ul style="list-style-type: none"> Chairman of Fujairah Rock and Aggregate CO Managing Director of East Coast Group Board member of Al Taif Investment Member of the Board of Trustees of University of Fujairah
Khalil Ebraheim Hassan Ahmed	<ul style="list-style-type: none"> Board Member Non-Executive Member Independent Member 	<ul style="list-style-type: none"> Master of Commerce in Professional Accounting, from Griffith University, Queensland, Australia Master of Commerce in Applied Finance, University of Queensland, Australia Bachelor of Business Administration – BBA, Financial Management & Marketing –from Arab Academy for Science and Technology and Maritime Transport (AASTMT), Egypt Executive Development Diploma, Business Leadership & Management –from IMD, International Institute for Management Development- Switzerland 	Since 2023 1 years	<ul style="list-style-type: none"> Vice Chairman of Fujairah Building Industries PJSC Board Member of Fujairah Rock and Aggregate Company 	<ul style="list-style-type: none"> Deputy Managing Director, Port of Fujairah

B. Female representation on the Board of Directors in 2023

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 2022**

Board Remuneration details are as follows:

Board Remuneration 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)

2. Total remuneration for members of the Board of Directors proposed for 2023

Proposed Board Remuneration details are as follows:

Board Remuneration will be paid during 2024 for year 2023	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 2023:

NIL

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 2023, 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 2023 there were eight meetings held as follows:

Date of the meeting	Number of attendees	Attending through proxy	Names of the absent members
25 January 2023	8	-	H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi
16 March 2023	9	-	-
26 April 2023	8	-	H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi
22 June 2023	6	-	H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi Mr. Hussain Mirza Al Sayegh Mr. Abdulla Fareed Al Gurg
26 September 2023	6	-	H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi Mr. Mohammed Obaid Bin Majid Al Aleeli
25 October 2023	7	-	Mr. Saif Sultan Al Salami Mr. Khalil Ebraheim Hassan Ahmed
16 November 2023	9	-	-
30 November 2023	7	-	H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi

- On 25 January 2023: H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi apologized for not attending the meeting and his absence was accepted by the Board.
- On 26 April 2023: H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi, apologized for not attending the meeting and his absence were accepted by the Board.
- On 22 June 2023: H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi, Mr. Hussain Mirza Al Sayegh and Mr. Abdulla Fareed Al Gurg apologized for not attending the meeting and their absences were accepted by the Board.
- On 26 September 2023: H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi, Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi and Mr. Mohammed Obaid Bin Majid Al Aleeli apologized for not attending the meeting and their absences were accepted by the Board.
- On 25 October 2023: Mr. Saif Sultan Al Salami and Mr. Khalil Ebraheim Hassan Ahmed apologized for not attending the meeting and their absences were accepted by the Board.
- On 30 November 2023: H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi and Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi apologized for not attending the meeting and their absences were accepted by the Board.

E. Number of Board resolutions issued by circulation during 2023 with the dates.

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

- Investment Portfolio Exposure Revision - on 9 January 23
- Annual Report 2022 - on 10 February 23
- ESG Report - on 8 March 2023
- Risk Appetite Statement and Annual Review of Key Risk Framework - on 22 March 2023
- Policies and Charters 2023 – on 22 March 2023
- Confirmation of appointment of Chairman, Deputy Chairperson and Members of the Board Committees – on 22 March 2023
- H1 2023 Results – on 26 July 2023

F. The duties and functions of the Board of Directors carried out by a member of the board or executive management during 2023 based on delegations 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 Delegation
Vince Cook Chief Executive Officer (CEO)	Board Approval	Annually (12months)
Adnan Anwar Deputy Chief Executive Officer	Board Approval	Annually (12months)
Ivor John Dorkin Head of Credit (HoC)	Board Approval	Annually (12months)

G. Details of transactions that took place with related parties (stakeholders) during 2023

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:

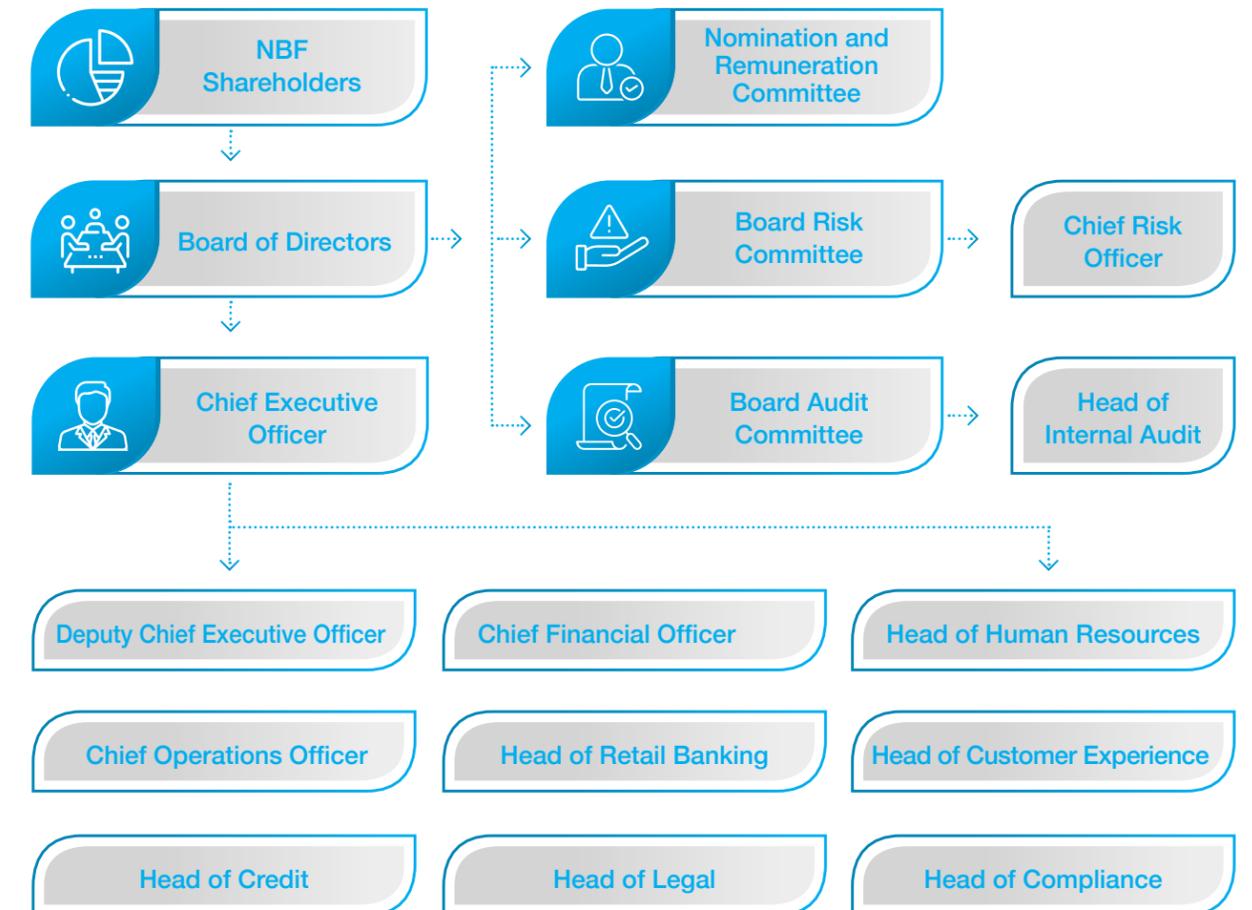
	2023 AED'000	2022 AED'000
Statement of financial position items		
Loans and advances and Islamic financing receivables	3,583,682	3,583,048
Customer deposits and Islamic customer deposits	9,948,263	8,814,053
Investments and Islamic instruments	136,332	147,650
Acceptances	34,780	21,095
Tier 1 capital securities	293,840	293,840
Contingent liabilities		
Letters of credit	115,179	56,093
Financial guarantees and other direct credit substitutes	36,870	58,085
Transaction related contingencies	596,391	269,644
Statement of changes in equity items		
Tier 1 capital securities coupon paid	17,264	17,264
Statement of income items		
Interest income and income from Islamic financing and investment activities	198,287	130,889
Interest expense and distribution to Islamic depositors	427,680	183,132
Other income	14,263	10,619
Operating expenses	31,838	29,038
Key management compensation		
Salaries and other short-term benefits	28,037	24,607
Employee end of service benefits	1,007	1,249
Board members' remuneration	5,500	5,500

No stage 3 provisions for impairment have been recognised in respect of loans and advances and Islamic financing receivables given to related parties (2022: nil).

The loans and advances and Islamic financing receivables given to related parties have been secured against collateral amounting to AED 2,220.2 million (2022: AED 2,219.0 million).

During the year, capital expenditure transactions with related parties amounted to AED 3.2 million (31 December 2022: AED 2.2 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, their designations, date of appointment and a statement of the total salaries and bonuses paid to them, according to the following table:

The Designation	Date of Joining	Total salaries and allowances paid for the year 2023 (AED)	Total bonuses paid in 2023 for 2022 (AED) *	Any other cash / in-kind bonuses for the year 2023 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 (Acting)	5 Sep 2017			
Head of Retail and SEO, Fujairah Region	15 May 1994			
Head of Human Resources	10 Oct 2010			
Head of Compliance	27 Sep 2020			
Head of Credit	21 May 2014			
Total		29,043,764	2,010,000	-

*This reflects bonus for the year 2022 paid in 2023

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 16 March 2023.

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 – Tamsin King
Number of years spent as bank's External Auditors'	Two years
Number of years the partner auditor spent in auditing the Bank's accounts	One year
Auditing fees for the year 2023	AED 545,000 plus value added tax (VAT)
Audit related services fees for the year 2023 [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 2023	AED 690,190 plus value added tax (VAT)
Fees and costs for special services other than auditing the financial statements for the year 2023 if any, and in the absence of any other fees, this is expressly stated	AED 1.502 million plus value added tax (VAT). This non-audit fees include AED 1.46 million attributable to PwC Technology Academy, effective from 2021, as part of the bank's corporate social responsibility 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 2023 (if any), and in the absence of another external auditor, this is explicitly stated	Auditor's Name: Crowe Mak Consulting Details of the services provided: Value added tax [VAT] consultation Auditor's Name: Ernst and Young [EY] Consulting Details of the services provided: Corporate tax consultation

C. A statement clarifying the reservations that the bank's auditor has included in the interim and annual financial statements for the year 2023, and in the absence of any reservations, this must be explicitly stated:

The Bank's auditor PwC, has provided unmodified opinions on all interim and annual consolidated financial statements. Excerpts of opinions from interim and Annual Accounts 2023 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 ended 31 March 2023, 30 June 2023 and 30 September 2023 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 2023, and its consolidated financial performance and its consolidated cash flows.

5. THE AUDIT COMMITTEE

A. Acknowledgment by the Chairman of the Board 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 five Board members and an independent professional as follows:

Name	Designation
Ahmed Saeed Al Raqbani	Chairman
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	Member
Saif Sultan Al Salami	Member
Abdulla Fareed Al Gurg	Member
Khalil Ebraheim Hassan Ahmed	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
- Reviewing 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 2023 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
18 January 2023	1. Ahmed Saeed Al Raqbani 2. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 3. Saif Sultan Al Salami 4. Abdulla Fareed Al Gurg T. N. Sekhar - Independent Professional Audit Committee Member	Permanent Invitee from Internal Audit: 1. Balwant Bains Special Invitee from Management: 1. Vince Cook 2. Adnan Anwar 3. Jonathan Falconer Special Invitee from Management for PWC session: 1. Brian Mulholland External Audit – PWC: 1. Ashruff Jamall 2. Shereen Osman 3. Stuart Scoular	• Board of Directors: 4 (count) • Independent Professional Committee Member: 1 (count) • Management: 4 (count) • Internal Audit: 1 (count) • External Audit: 3 (count)
29 March 2023	1. Ahmed Saeed Al Raqbani 2. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 3. Saif Sultan Al Salami 4. Abdulla Fareed Al Gurg 5. Khalil Ebraheim Hassan Ahmed T. N. Sekhar - Independent Professional Audit Committee Member	Permanent Invitee from Internal Audit: 1. Balwant Bains Special Invitee from Management: 1. Vince Cook 2. Jonathan Falconer	• Board of Directors: 5 (count) • Independent Professional Committee Member: 1 (count) • Management: 2 (count) • Internal Audit: 1 (count)

Date of the Meeting	Board of Directors in Attendance	Management Team Attendance	Total attendance
18 April 2023	1. Ahmed Saeed Al Raqbani 2. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 3. Saif Sultan Al Salami 4. Abdulla Fareed Al Gurg 5. Khalil Ebrahiem Hassan Ahmed T. N. Sekhar -Independent Professional Audit Committee Member	Permanent Invitee from Internal Audit: 1. Balwant Bains Special Invitee from Management: 1. Vince Cook 2. Adnan Anwar 3. Jonathan Falconer Special Invitee from Management for PWC session: 1. Brian Mulholland External Audit – PWC: 1. Ashruff Jamall 2. Shereen Osman 3. Stuart Scouler	<ul style="list-style-type: none"> Board of Directors: 5 (count) Independent Professional Committee Member: 1 (count) Management: 4 (count) Internal Audit: 1 (count) External Audit: 3 (count)
20 July 2023	1. Ahmed Saeed Al Raqbani 2. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 3. Saif Sultan Al Salami 4. Abdulla Fareed Al Gurg 5. Khalil Ebrahiem Hassan Ahmed T. N. Sekhar -Independent Professional Audit Committee Member	Permanent Invitee from Internal Audit: 1. Balwant Bains Special Invitee from Management: 1. Vince Cook 2. Adnan Anwar 3. Tom Harvey Special Invitee from Management for PWC session: 1. Brian Mulholland External Audit – PWC: 1. Ashruff Jamall 2. Shereen Osman 3. Tamsin King Special Invitee from External Company (Protiviti) 1. Varun Verma	<ul style="list-style-type: none"> Board of Directors: 5 (count) Independent Professional Committee Member: 1 (count) Management: 4 (count) Internal Audit: 1 (count) External Audit: 3 (count) External Company: 1 (count)
18 October 2023	1. Ahmed Saeed Al Raqbani 2. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 3. Saif Sultan Al Salami 4. Abdulla Fareed Al Gurg 5. Khalil Ebrahiem Hassan Ahmed T. N. Sekhar -Independent Professional Audit Committee Member	Permanent Invitee from Internal Audit: 1. Balwant Bains Special Invitee from Internal Shari'ah Audit: 1. Mohamed Elkdousy Special Invitee from Management: 1. Vince Cook 2. Adnan Anwar 3. Jonathan Falconer Special Invitee from Management for PWC session: 1. Brian Mulholland External Audit – PWC: 1. Ashruff Jamall 2. Shereen Osman 3. Tamsin King	<ul style="list-style-type: none"> Board of Directors: 5 (count) Independent Professional Member: 1 (count) Management: 4 (count) Internal Audit: 1 (count) Internal Shari'ah Audit: 1 (count) External Audit: 3 (count)

Date of the Meeting	Board of Directors in Attendance	Management Team Attendance	Total attendance
8 December 2023	1. Ahmed Saeed Al Raqbani 2. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 3. Saif Sultan Al Salami 4. Abdulla Fareed Al Gurg 5. Khalil Ebrahiem Hassan Ahmed T. N. Sekhar -Independent Professional Audit Committee Member	Permanent Invitee from Internal Audit: 1. Balwant Bains Special Invitee from Internal Shari'ah Audit: 1. Mohamed Elkdousy Special Invitee from Management: 1. Vince Cook 2. Adnan Anwar 3. Brian Mulholland 4. Jonathan Falconer	<ul style="list-style-type: none"> Board of Directors: 5 (count) Independent Professional Committee Member: 1 (count) Management: 4 (count) Internal Audit: 1 (count) Internal Shari'ah Audit: 1 (count)

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, review of composition, appointments and rewards of the Board and Internal Shari'ah 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 Mohamed Bin Hamad 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 2023 and their dates, with an indication of attendance

Date of the meeting	Board of Directors in attendance	Management Team attendance
10 March 2023	1. H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi 2. Dr. Raja Easa Saleh Al Gurg 3. Saif Sultan Al Salami	1. Vince Cook 2. Adnan Anwar
1 June 2023	1. H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi 2. Dr. Raja Easa Saleh Al Gurg 3. Saif Sultan Al Salami	1. Vince Cook 2. Adnan Anwar

Date of the meeting	Board of Directors in attendance	Management Team attendance
26 September 2023	1. H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi 2. Dr. Raja Easa Saleh Al Gurg 3. Saif Sultan Al Salami	1. Vince Cook 2. Adnan Anwar
16 November 2023	1. H.H. Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi 2. Dr. Raja Easa Saleh Al Gurg 3. Saif Sultan Al Salami	1. Vince Cook 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 2023. 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 and 7C.

C. A summary of the committee's work report during the year 2023 (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 five Board members and an independent professional as follows:

Name	Designation
Shaikh Hamad Bin Saleh Bin Mohamed Al Sharqi	Chairman
Saif Sultan Al Salami	Member
Mohamed Obaid Bin Majed Al Aleeli	Member
Abdulla Fareed Al Gurg	Member
Khalil Ebraheim Hassan Ahmed	Member
T N Sekhar	Independent Professional Committee Member

It oversees the risks inherent to group business, control processes, risk management and compliance. The CEO, Deputy CEO (DCEO), Chief Risk Officer (CRO), and Head of Compliance 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 2023 and their dates, with an indication of attendance

Date of the Board Meeting	Board of Directors in attendance	Management Team
8 February 2023	1. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 2. Saif Sultan Al Salami 3. Mohamed Obaid Bin Majed Al Al Aleeli 4. Abdulla Fareed Al Gurg T N Sekhar - Independent Professional Committee Member	1. Vince Cook 2. Adnan Anwar 3. Brian Martin Mulholland 4. Stuart Wright 5. Jonathan Falconer
10 March 2023	1. Saif Sultan Al Salami 2. Mohamed Obaid Bin Majed Al Al Aleeli 3. Abdulla Fareed Al Gurg T N Sekhar - Independent Professional Committee Member	1. Vince Cook 2. Adnan Anwar 3. Stuart Wright
24 May 2023	1. Mohamed Obaid Bin Majed Al Al Aleeli 2. Abdulla Fareed Al Gurg 3. Khalil Ebraheim Hassan Ahmed T N Sekhar - Independent Professional Committee Member	1. Vince Cook 2. Adnan Anwar 3. Brian Mullholland 4. Stuart Wright 5. Jonathan Falconer
16 August 2023	1. Saif Sultan Al Salami 2. Mohamed Obaid Bin Majed Al Al Aleeli 3. Khalil Ebraheim Hassan Ahmed T N Sekhar - Independent Professional Committee Member	1. Vince Cook 2. Adnan Anwar 3. Stuart Wright 4. Jonathan Falconer
6 December 2023	1. Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi 2. Saif Sultan Al Salami 3. Mohamed Obaid Bin Majed Al Al Aleeli 4. Abdulla Fareed Al Gurg 5. Khalil Ebraheim Hassan Ahmed T N Sekhar - Independent Professional Committee Member	1. Vince Cook 2. Adnan Anwar 3. Stuart Wright 4. 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
Stuart Wright Chief Risk Officer (Acting)	Bachelors in Law	5-Sep-2017

C. Compliance Officer Name, qualifications and date of appointment

Name	Qualifications	Date of Joining
Jonathan James Falconer Head of Compliance	Masters in Law	27-Sep-2020

D. The Internal Audit

Name	Qualifications	Date of Joining
Balwant Bains Head of Internal Audit	Bachelors of Business studies 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 Risk Committee and Board by Risk Management and Compliance functions, Internal Audit issued 44 reports and 6 process notes to the Board and Board Audit Committee in 2023.

10. DETAILS OF VIOLATIONS COMMITTED IN 2023, THEIR REASONS, AND HOW TO DEAL WITH THEM AND AVOID THEIR RECURRENCE IN THE FUTURE

There were no material violations observed in 2023. 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 re-occurrence.

11. CASH AND IN-KIND CONTRIBUTIONS MADE BY THE BANK DURING 2023 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 5.4 million investment was spent in 2023. The bank continued its support to Fujairah Welfare Association, and their initiatives such as Ramadan Drives, Dibba Football club, and a tennis club. Additionally, the bank also contributed to relief operations like AED 75,000 for the earthquake in Turkey and Syria and AED 50,000 for the earthquake in Morocco through Emirates Red Crescent.

The seventh NBF Fujairah Run was held in November 2023 with a record participation of about 3000 runners. Over 500 artists from across the UAE submitted artwork to the third NBF Annual Art Competition following the 'environmental and sustainability' theme. The Bank tied up with Emirates WWF to offer their program 'Leaders for Change' to its staff. This was well received with over 50 staff enrolling for the program and participate in field and classroom activities related to biodiversity, nature and climate. It is a year-long program of activities like climate simulator workshops and field visits to understand the desert biodiversity at night.

To read more about the bank's CSR and sustainability efforts, please refer to 'NBF ESG Report 2023' 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 2023

NBF share prices for the year 2023 were as follow:

Month	Closing price	Highest price	Lowest price
January 2023	4.99	4.99	4.60
February 2023	4.99	4.99	4.60
March 2023	4.99	4.99	4.99
April 2023	5.00	5.00	5.00
May 2023	4.99	4.99	4.97
June 2023	4.99	4.99	4.97
July 2023	4.99	4.99	4.97
August 2023	4.99	4.99	4.97
September 2023	4.99	4.99	4.97
October 2023	4.50	4.50	4.50
November 2023	4.50	4.50	4.50
December 2023	5.00	5.00	4.05

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 2023

Bank Sector	Price to Book Ratio	Price to Earnings Ratio
NBF (Dec 2023)	2.01	16.32
Industry (Sep 2023)	0.93	6.42

C. A statement of the distribution of shareholders' ownership as at 31 December 2023 (individuals, companies, governments) classified as follows: local, Gulf, Arab, and foreign

Shareholder classification	Percentage of shares owned			
	Individuals	Companies	Governments	Total
Local	7.66%	36.82%	55.52%	100%
Gulf	-	-	-	-
Arab	-	-	-	-
Foreign	-	-	-	-
Total	7.66%	36.82%	55.52%	100%

D. A statement of the shareholders who own 5 per cent or more of the bank's capital as on December 31, 2023

Name	Number of shares owned	The percentage of shares owned from the bank's capital
Department of Industry & Economy-Government of Fujairah	866,863,607	40.89%
Easa Saleh Al Gurg LLC	455,507,194	21.49%
Investment Corporation of Dubai	185,234,389	8.74%
Fujairah Investment Company	110,647,877	5.22%

E. A statement of the method of distributing the shareholders according to the size of ownership as at 31 December 2023

Shares ownership (share)	Number of shareholders	Number of shares owned	The percentage of shares owned in the capital
Less than 50,000	42	699,006	0.03%
50,000 to less than 500,000	60	9,696,010	0.46%
From 500,000 to less than 5,000,000	30	60,756,985	2.87%
More than 5,000,000	26	2,048,847,999	96.64%

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 Fax: 09-2029403 e-mail: NBF-investorrelations@nbf.ae, s.hamroun@nbf.ae
The electronic link for the investor relations page on the Bank's website	https://nbf.ae/en/about-us/investor-relations

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 III 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 2023 and the measures taken in their regard

In the Annual General Assembly Meeting held on 16 March 2023 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 2023

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 2023 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	4,552.92	12
Due from banks and financial institutions	17,165.75	37
Customer deposits and Islamic customer deposits	2,391.97	6

K. Statement of the percentage of Emiratisation in the bank by the end of 2021, 2022 and 2023

The bank is fully committed towards the development and promotion of Emiratisation. The bank's Emiratisation percentage for year ended 31 December 2021 was 46.52 per cent, for year ended 31 December 2022 was 40.2 per cent and for year ended 31 December 2023 was 41.15% per cent.

L. A statement of the innovative projects and initiatives undertaken by the bank or under development during the year 2023

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 Mohamed Bin Hamad Al Sharqi

Chairman of the Board of Directors and Chairman of the Nomination and Remuneration Committee
24 January 2024



Ahmed Saeed Al Raqbani

Chairman of the Board Audit Committee
24 January 2024



Stuart Wright

Chief Risk Officer (Acting)
24 January 2024



SUSTAINABILITY REPORT

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 supports the principles and objectives of the UN Sustainable Development Goals (SDGs), which foster a long-term, collaborative approach to sustainability. It is also guided by the UAE Energy Strategy 2050, the UAE Centennial 2071, UAE Net Zero 2050, Fujairah 2040, and the Abu Dhabi Securities Exchange Guidance on Sustainability Reporting. It has introduced various initiatives to minimise the bank's ecological footprint, including investments in renewable energy and sustainable resource management. In the realm of social responsibility, it is committed to social welfare, community engagement, financial inclusion, and employee well-being.

OUR SUSTAINABILITY APPROACH AND FRAMEWORK

NBF released an ESG Position Statement approved by the Board of Directors in 2023. This followed a review of the bank's sustainability framework, which widened the vision, goals and frameworks of NBF by aligning with key national and global sustainability standards and strategies. 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.

NBF's six core sustainability framework pillars are: prioritising sustainable and inclusive banking; spearheading digital innovation; reducing environmental impact; nurturing local pioneers; maintaining a safe and diverse workplace; and a commitment to governance, integrity and risk management. With sustainability placed firmly at the core of NBF's business, the bank is committed to serving all of its stakeholders: its shareholders, customers, suppliers, wider society and the planet itself. Looking ahead, the bank intends to create a comprehensive roadmap for baseline assessment and the transition of its operations toward achieving net zero status.

NBF'S SIX CORE SUSTAINABILITY FRAMEWORK PILLARS



PRIORITISING SUSTAINABLE AND INCLUSIVE BANKING

NBF has sought to use its financial expertise and products to support its clients on their journey towards increased sustainability, providing financial solutions and services that contribute to sustainable growth and development. The bank continued its partnership with Emirates Development Bank's credit guarantee scheme, providing credit solutions to eligible SMEs and microenterprises. It also enhanced its presence in the green and renewable energy space, offering green loans for the purchase of electric vehicles. Its green product suite was also boosted by the launch of a green personal loan for the financing of solar panels. In 2023, the bank's existing ESG-compliant investment portfolio comprised around 6.59 per cent of its total portfolio.

TOWARDS NET ZERO

NBF has reduced its carbon footprint, increased funding for green projects, focussed on clean and renewable energy, introduced green loans, partnered with companies to support their transition to more sustainable business models, and enhanced its own waste management initiatives to reduce, reuse, and recycle materials across all of the bank's operations. All of these initiatives were strengthened in 2023, with NBF's Board Risk and Sustainability committee responsible for oversight of the bank's sustainability strategy.

It also continued to enhance the requirements under the CBUAE's Consumer Protection Standards, conducted board member training and engagement on sustainability, and launched its Sustainability Finance Framework and Sustainability Statement. During COP28, the UAE Banks Federation pledged to mobilise AED 1 trillion in sustainable finance by 2030. NBF was proud to be part of that commitment. Integrating ESG risk assessment into the bank's credit appraisal processes is also a particular point of focus.

REDUCING ENVIRONMENTAL IMPACT & ENERGY CONSUMPTION

In 2023, the bank began reporting and tracking key performance indicators (KPIs) related to the environmental impact of its operations. This is being carried out on a quarterly basis. Moving forward, NBF plans to introduce a roadmap that details its transition to net zero. NBF tracks paper consumption across all of its branches, encourages paper saving initiatives, and measures its total energy consumption. In 2023, the bank expanded its use of occupancy sensors, which ensure the lights are switched off when a space is empty, and increased its use of renewable energy. Solar lamp posts are now used in open areas at NBF's properties, and the bank plans to introduce a 50kWH solar power generation plant at its Jebel Ali branch in 2024. The bank has also installed four electric vehicle charging stations.

The bank monitors power and water consumption in all of its branches and encourages all employees to pay attention to their own water consumption. These efforts resulted in a 10% reduction in our emission intensity to 5.57 tonnes of CO2 equivalent per employee in 2023.

COMMUNITY ENGAGEMENT

NBF undertook a number of initiatives towards supporting the local community in 2023. Most of the bank's charitable and philanthropic initiatives and donations are centred on its home emirate of Fujairah and are chosen by the CSR Committee. These initiatives include the ongoing support of Fujairah Welfare Association, an organisation that runs initiatives such as Ramadan Drives, Dibba Football Club, and the Tennis Club. Other initiatives include educational support for the Higher Colleges of Technology. It also instigated collaborations with organisations such as CleanMax, PwC, Fujairah Environmental Authority, Emirates Nature WWF, Sustainability Excellence, Fujairah Sports Authority, and General Authority of sports to make a difference for the broader community.

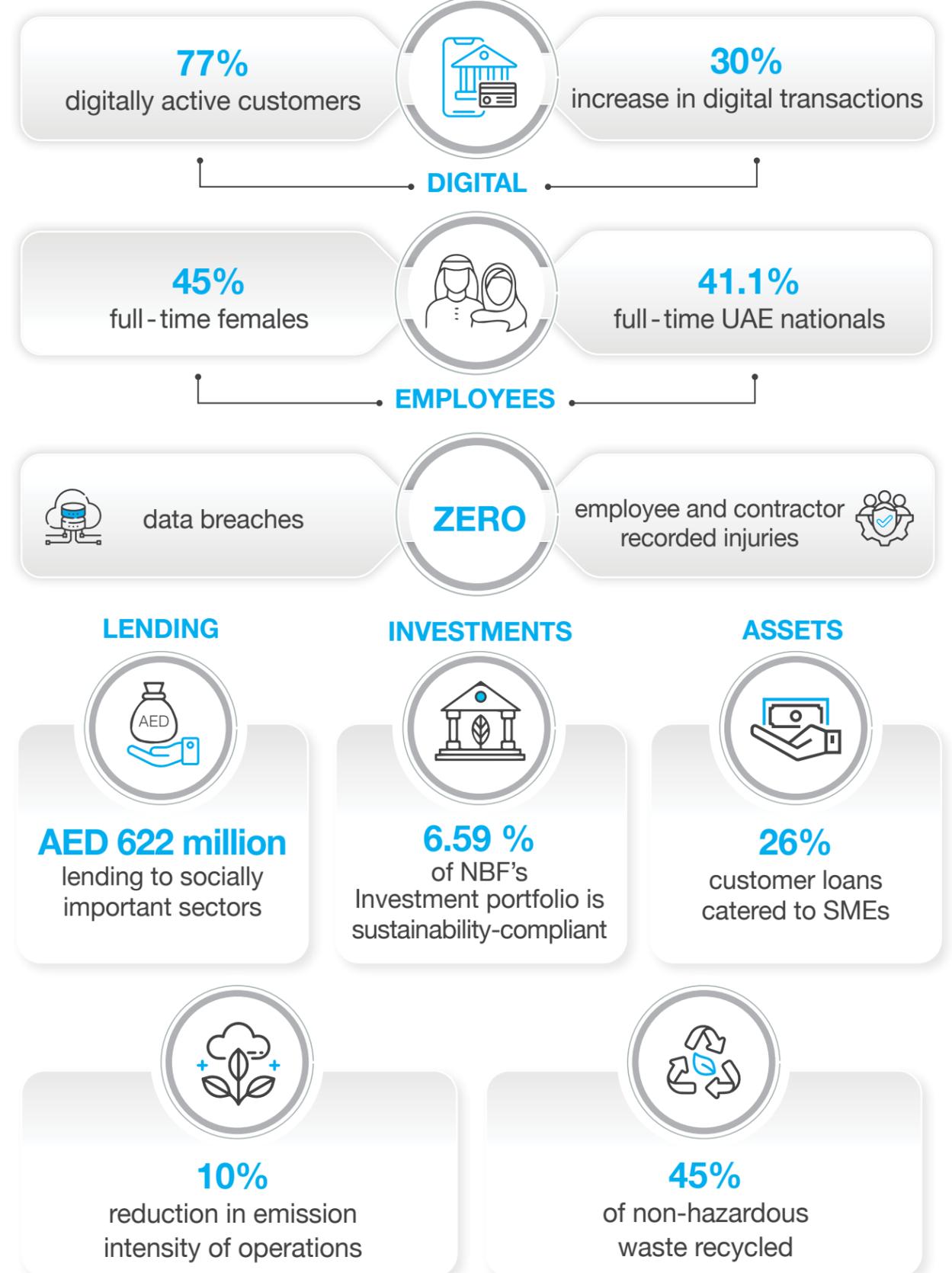
NBF has supported Mission to Seafarers, a charitable institution that aids the welfare of seafarers across the UAE, since 2012. This support continued in 2023. The bank also donated to relief efforts following the earthquakes in Turkey, Syria, and Morocco and flooding in Libya. The NBF Fujairah Run attracted a record 3,000 runners, while the NBF Art Competition received a record 535 entries. The bank also continued its Zakat Fund donation drive and participated in the National Service Career Fair. In addition, NBF partnered with Emirates Nature- WWF to launch 'Leaders of Change'.

In total, the bank made a community investment of AED 5.4 million in 2023. It was also pleased to record zero fatalities and recordable injuries for employees and contractors for the third year in succession. The bank conducted 263 health and safety audits, and provided 360 hours of health and safety training to employees – increase of over 100 per cent on the previous year. In 2023, female employment stood at 45 per cent.



AED 5.4 million
in community investments

2023 SUSTAINABILITY HIGHLIGHTS



To know more about our sustainability and CSR efforts, please visit nbf.ae to read the consolidated 'NBF Sustainability Report 2023'.

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: 24 January 2024

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 2023 ("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, internal 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 5 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, internal 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, internal 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 Zakat due on each share of the Institution.
- i. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'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, except for the incidents of non-compliance observed, as highlighted in the relevant reports. The ISSC also provided directions to take appropriate measure in this regard.

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. Mohammed Ahmed Al Hashimi (Vice Chairman)



Dr. Abdul Rahman Al Saadi (Member)



INDEPENDENT AUDITOR'S REPORT

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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

Key Audit Matters

Measurement of Expected Credit Losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated

financial statements. In particular, we considered where 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 year. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters

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 matters

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 2023: We tested the completeness and accuracy of the data used in the calculation of ECL.

For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria.

We involved our internal 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 Financial Instruments (IFRS9).

- 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, giving specific consideration to the management overlays.
- 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.

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.

We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 Financial Instruments: 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, Environmental Social and Governance Report and Internal Shari'ah 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, Environmental Social and Governance Report and Internal Shari'ah Supervision Committee Report, 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 IFRS Accounting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, as amended, 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 have 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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- 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 as amended;
- the Group has maintained proper books of account;
- 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 2023;

(vi) note 30 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

(vii) Note 25 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2023; 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 2023 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, as amended, or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2023.

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

PricewaterhouseCoopers Limited Partnership Dubai Branch

24 January 2024



Rami Sarhan

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 2023

	Note	2023 AED'000	2022* AED'000
Assets			
Cash and balances with the Central Bank of the UAE	7	11,456,782	9,718,922
Due from banks and financial institutions	8	2,101,500	2,347,975
Investments and Islamic instruments - fair value	9	3,030,451	2,699,357
Investments and Islamic instruments - amortised cost	9	5,112,153	3,650,561
Loans and advances and Islamic financing receivables	10	27,903,695	26,914,854
Acceptances		1,074,657	1,180,925
Other assets	13	523,006	665,544
Property and equipment	14	372,859	331,660
Intangibles	14	144,713	114,470
Total assets		51,719,816	47,624,268
Liabilities			
Due to banks	15, 35	1,137,077	1,393,914
Customer deposits and Islamic customer deposits	16	38,572,006	35,735,934
Repurchase agreements	15, 35	2,501,332	1,994,310
Term borrowings	15	550,950	440,760
Acceptances		1,076,470	1,184,696
Other liabilities	17	1,315,375	1,024,190
Total liabilities		45,153,210	41,773,804
Equity			
Share capital	18.1	2,120,000	2,000,000
Statutory reserve	18.3	1,054,121	981,616
Special reserve	18.3	679,967	607,462
Fair value reserve		14,408	(52,192)
Cash flow hedge reserve		(1,230)	-
Proposed cash dividends	18.2	212,000	-
Proposed bonus issue	18.2	106,000	120,000
Impairment reserve	12.2	-	168,201
Retained earnings		1,095,790	739,827
Tier 1 capital securities	19	1,285,550	1,285,550
Total equity attributable to equity and securities holders of the Group		6,566,606	5,850,464
Total liabilities and equity		51,719,816	47,624,268

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 24 January 2024 and are signed on its behalf by:



Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman



Dr. Raja Easa Al Gurg
Deputy Chairperson

* Prior year amounts have been reclassified to conform to the current year presentation with details covered in note 35.

The notes on pages 59 to 110 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 2023

	Note	2023 AED'000	2022 AED'000
Interest income and income from Islamic financing and investment activities	20	2,933,596	1,697,079
Interest expense and distribution to Islamic depositors	21	(1,228,738)	(475,903)
Net interest income and net income from Islamic financing and investment activities		1,704,858	1,221,176
Fees and commission income		425,049	383,340
Fees and commission expense		(58,207)	(50,791)
Net fees and commission income	22	366,842	332,549
Foreign exchange and derivatives income	23	164,495	181,377
(Loss) / Income from investments and Islamic instruments		(4,158)	18,766
Other operating income	24	50,927	60,719
Operating income		2,282,964	1,814,587
Operating expenses			
Employee benefits expense		(404,034)	(330,756)
Depreciation and amortization	14	(34,134)	(33,623)
Other operating expenses		(260,726)	(213,789)
Total operating expenses		(698,894)	(578,168)
Operating profit before impairment losses		1,584,070	1,236,419
Net impairment losses	26	(859,003)	(896,038)
Profit for the year		725,067	340,381
Earnings per share (basic and diluted)	27	AED 0.306	AED 0.125

The notes on pages 59 to 110 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 2023

	2023 AED'000	2022 AED'000
Profit for the year	725,067	340,381
Other comprehensive income:		
Items that will not be reclassified subsequently to statement of income:		
Movement in fair value reserve (equity instruments):		
- Net change in fair value	(552)	(11,047)
Items that may be reclassified subsequently to statement of income:		
Movement in fair value reserve (debt instruments):		
- Net change in fair value	66,545	(64,059)
- Net change in allowances for impairment	(1,726)	(1,466)
- Net amount transferred to the statement of income	2,333	(19,661)
- Fair value loss on cash flow hedges	(1,230)	-
Other comprehensive income/ (loss) for the year	65,370	(96,233)
Total comprehensive income for the year	790,437	244,148

The notes on pages 59 to 110 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 2023

	Note	2023 AED'000	Restated 2022 AED'000
Operating activities			
Profit for the year		725,067	340,381
Adjustments for:			
Depreciation and amortization	14	34,134	33,623
Provision for employee end of service and other long term benefits	17.1	20,819	22,322
Gain on disposal of property, equipment and intangibles		(15)	(153)
Net impairment losses	26	859,003	896,038
Net fair value loss / (gains) on disposal of investments and Islamic instruments		2,257	(25,406)
Net changes in fair value of investments		1,901	6,640
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits			
		1,643,166	1,273,445
Payment of employee end of service and other long term benefits	17.1	(12,882)	(12,803)
Change in due from the Central Bank of the UAE		(3,176,569)	(2,992,849)
Change in due from banks and financial institutions		(55,732)	(182,407)
Change in loans and advances and Islamic financing receivables		(1,797,076)	(2,135,494)
Change in acceptances and other assets		242,613	539,261
Change in due to banks		(256,837)	412,494
Change in repurchase agreements		507,022	842,191
Change in customer deposits and Islamic customer deposits		2,836,072	3,537,189
Change in acceptances and other liabilities		137,412	(233,398)
Net cash generated from operating activities		67,189	1,047,629
Investing activities			
Purchase of property, equipment and intangibles		(106,686)	(83,685)
Proceeds from sale of property, equipment and intangibles		15	153
Purchase of investments and Islamic instruments		(3,292,430)	(5,415,379)
Proceeds from sale and maturity of investments and Islamic instruments		1,555,298	3,353,610
Net cash used in investing activities		(1,843,803)	(2,145,301)
Financing activities			
Proceeds from term borrowings		550,950	440,760
Repayment of term borrowings		(440,760)	(514,220)
Tier 1 capital securities coupon paid		(75,526)	(75,526)
Net cash generated from / (used in) financing activities		34,664	(148,986)
Net change in cash and cash equivalents		(1,741,950)	1,246,658
Cash and cash equivalents at beginning of the year		4,274,798	5,521,456
Cash and cash equivalents at end of the year	31, 35	2,532,848	4,274,798

The notes on pages 59 to 110 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 2023

AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Cash flow hedge reserve	Proposed dividends	Impairment reserve	Retained earnings	Tier 1 capital securities	Total
At 1 January 2023	2,000,000	981,616	607,462	(52,192)	-	120,000	168,201	739,827	1,285,550	5,850,464
Profit for the year	-	-	-	-	-	-	-	725,067	-	725,067
Other comprehensive income for the year	-	-	-	66,600	(1,230)	-	-	1,231	-	66,601
Total comprehensive income for the year	-	-	-	66,600	(1,230)	-	-	726,298	-	791,668
Excess provisions under Central Bank of the UAE requirements over IFRS 9 (note 12.2)	-	-	-	-	-	-	(168,201)	168,201	-	-
Tier 1 capital securities coupon paid	-	-	-	-	-	-	-	(75,526)	-	(75,526)
Proposed cash dividends	-	-	-	-	-	212,000	-	(212,000)	-	-
Proposed bonus issue	-	-	-	-	-	106,000	-	(106,000)	-	-
2022 bonus shares issued	120,000	-	-	-	-	(120,000)	-	-	-	-
Transfer to reserves	-	72,505	72,505	-	-	-	-	(145,010)	-	-
At 31 December 2023	2,120,000	1,054,121	679,967	14,408	(1,230)	318,000	-	1,095,790	1,285,550	6,566,606
AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Cash flow hedge reserve	Proposed bonus issue	Impairment reserve	Retained earnings	Tier 1 capital securities	Total
At 1 January 2022	2,000,000	947,578	573,424	44,041	-	-	189,674	635,396	1,285,550	5,675,663
Profit for the year	-	-	-	-	-	-	-	340,381	-	340,381
Other comprehensive income for the year	-	-	-	(96,233)	-	-	-	6,179	-	(90,054)
Total comprehensive loss for the year	-	-	-	(96,233)	-	-	-	346,560	-	250,327
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)	-	-
At 31 December 2022	2,000,000	981,616	607,462	(52,192)	-	120,000	168,201	739,827	1,285,550	5,850,464

The notes on pages 59 to 110 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 2023

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 fourteen branches, 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 2023 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 UAE Federal Decree-Law no 47 of 2022 was published setting in place a general corporate income tax for the first time. The profit threshold of AED 375,000 at which the 9% tax will apply was set in place by Cabinet Decision No 116 of 2022 which was published on 16 January 2023 and at this point the tax law was considered enacted and substantively enacted for accounting purposes. While current taxes are not payable on profits generated before the Company's financial year commencing on 1 January 2024, the existence of an enacted tax law results in the need to immediately record deferred taxes on assets and liabilities where the carrying amount differs from the tax base.

Based on the assessment, the Group has noted no potential deferred tax impact for the year ended 31 December 2023. The Group will continue to assess the expected impact, and continue to evaluate its interpretation in light of the Decisions and related guidance.

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. Material 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 2023, 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.

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'.

New and revised IFRS adopted in the consolidated financial statements

• 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.

• 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.

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

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 2023 that would be expected to have a material impact on the Group's consolidated financial statements.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

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

(d) Basis of consolidation

Subsidiaries

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

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

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

(e) Financial instruments

Classification and measurement

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

- 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:

- 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 2023 and 31 December 2022 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 2023

Macroeconomic variables	Scenario	Assigned probabilities	2024	2025	2026	2027	2028	Subsequent years
Oil Price (USD per barrel)	Base case	40%	83.56	76.88	73.84	74.23	74.73	85.26
	Upside	30%	86.33	77.74	73.85	74.23	74.33	85.26
	Downside	30%	65.76	59.94	68.99	72.17	72.54	83.50
UAE Gross Domestic Product (GDP) (AED billion)	Base case	40%	1,732	1,805	1,862	1,921	1,984	2,625
	Upside	30%	1,762	1,863	1,922	1,984	2,048	2,710
	Downside	30%	1,669	1,665	1,734	1,818	1,887	2,496
Stock market volatility (Delta of points)	Base case	40%	23.50	23.55	23.06	22.98	23.06	23.30
	Upside	30%	19.69	22.48	22.39	22.51	22.85	23.03
	Downside	30%	37.34	24.48	23.48	23.30	23.54	23.66

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

Sensitivity analysis

If the above macroeconomic variables (defined above) 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	-15.17%	-25.84%	+48.07%
Stage 2	-3.97%	-8.19%	+13.04%

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.

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

Qualitative factors

For Corporate and Institutional Banking portfolio, if the borrower 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

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.

and Risk teams. The Group has not used the low credit exemption for any financial instruments during the year ended 31 December 2023.

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 ≤ 30 days over the last 12 month period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

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

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 2 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. 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
Furniture and equipment	5 years
Motor Vehicles	3 years
Software	7 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) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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 risk-free benchmark reference rate (RFR) indexes will follow the standard market conventions relating to respective RFRs.

(r) 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.

(s) 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.

(t) Dividend income

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

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) 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.

(z) 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.

(aa) 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).

(ab) 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.

(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 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.

4. Material accounting policies (continued)

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

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'ah.

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'ah 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'ah 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'ah 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 born 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 on-going 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 and policy (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 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:

2023 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Funded exposure Stage 3	Stage 3 ECL- Funded	Write-off	Past dues	
							Upto 89 days	90 days & above
Trade	12,119,687	2,747,922	14,867,609	395,039	305,632	581,665	110,503	26,856
Construction and real estate	3,030,464	3,083,337	6,113,801	274,440	244,593	216,275	1,062	-
Government	1,157,481	17,155	1,174,636	-	-	-	-	-
Manufacturing	4,843,449	906,237	5,749,686	477,347	343,899	2,938	49,655	682
Financial institutions	1,243,774	156,115	1,399,889	-	-	-	-	-
Service industries	2,412,250	414,338	2,826,588	41,620	42,183	166,015	2,906	-
Individuals	4,829,645	1,667	4,831,312	253,399	149,330	679	1,754	-
Gross amount	29,636,750	7,326,771	36,963,521	1,441,845	1,085,637	967,572	165,880	27,538

2022 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Funded exposure Stage 3	Stage 3 ECL- Funded	Write-off	Past dues	
							Upto 89 days	90 days & above
Trade	11,975,381	2,520,097	14,495,478	549,228	582,507	286,167	10,164	9,697
Construction and 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	-
Gross amount	28,937,089	6,397,890	35,334,979	1,991,760	1,348,841	747,874	16,436	188,892

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:

2023 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Funded exposure Stage 3	Stage 3 ECL- Funded	Write-off	Past dues	
							Upto 89 days	90 days & above
UAE	27,821,226	7,214,319	35,035,545	1,437,220	1,082,680	967,572	158,741	27,538
GCC	858,070	16,103	874,173	-	-	-	-	-
Europe	474,767	62,089	536,856	-	-	-	7,139	-
Americas	206,193	-	206,193	-	-	-	-	-
Others	276,494	34,260	310,754	4,625	2,957	-	-	-
Gross amount	29,636,750	7,326,771	36,963,521	1,441,845	1,085,637	967,572	165,880	27,538

2022 AED'000	Funded exposure	Unfunded exposure	Gross exposure	Funded exposure Stage 3	Stage 3 ECL- Funded	Write-off	Past dues	
							Upto 89 days	90 days & 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	-	-	-	-	-
Gross amount	28,937,089	6,397,890	35,334,979	1,991,760	1,348,841	747,874	16,436	188,892

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	2023			2022		
	Funded exposure	Unfunded exposure	Gross exposure	Funded exposure	Unfunded exposure	Gross exposure
AED	22,226,270	4,651,767	26,878,037	22,236,797	4,277,685	26,514,482
USD	6,600,712	2,386,095	8,986,807	6,022,500	1,837,013	7,859,513
EUR	73,431	122,957	196,388	7,260	125,541	132,801
GBP	-	3,310	3,310	844	4,655	5,499
XAU	709,527	-	709,527	663,746	-	663,746
Others	26,810	162,642	189,452	5,942	152,996	158,938
Gross Amount	29,636,750	7,326,771	36,963,521	28,937,089	6,397,890	35,334,979

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 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.

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
	2023	2022	2023	2022
Stage 3				
Pledged deposits	241,207	180,673	19,769	5,261
Debt / equity securities	137,641	454,665	25,003	345,863
Property	574,888	750,967	383,327	508,098
Others	488,109	605,455	-	-
Gross amount	1,441,845	1,991,760	428,099	859,222
Life time ECL (Stage 3)	(1,085,637)	(1,348,841)	-	-
Carrying amount	356,208	642,919	428,099	859,222
Stage 1 and 2				
Pledged deposits	8,955,698	7,583,242	2,650,484	2,526,166
Debt / equity securities	240,767	245,550	220,683	221,139
Property	10,925,578	10,556,404	8,358,233	7,626,393
Others	8,072,862	8,560,133	-	-
Gross amount	28,194,905	26,945,329	11,229,400	10,373,698
12-month ECL (Stage 1) and Life-time ECL (Stage 2)	(647,418)	(673,394)	-	-
Carrying amount	27,547,487	26,271,935	11,229,400	10,373,698
Total	27,903,695	26,914,854	11,657,499	11,232,920

AED'000	Contingent liabilities		Collaterals	
	2023	2022	2023	2022
Pledged deposits	6,582,150	4,459,315	992,332	698,877
Others	7,326,771	6,324,755	507,020	385,499
Total	13,908,921	10,784,070	1,499,352	1,084,376

As at 31 December 2023, re-possessed mortgage properties amounted to AED 10.8 million (2022: AED 110.0 million) which have been adjusted against the outstanding receivables. These have been recorded under Other Assets and fully provisioned for the year ended 31 December 2023.

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:

2023 Risk grades of gross loans and advances and Islamic financing receivables				
AED'000	Stage 1	Stage 2	Stage 3	Total
RR 1-19				
Grade RR 1-17: Performing	26,031,660	287,247	-	26,318,907
Grade RR 18-19: Watchlist	-	1,875,998	-	1,875,998
Total – RR 1-19	26,031,660	2,163,245	-	28,194,905
RR 20-22: Non-performing	-	-	1,441,845	1,441,845
Total	26,031,660	2,163,245	1,441,845	29,636,750

2022 Risk grades of gross loans and advances and Islamic financing receivables				
AED'000	Stage 1	Stage 2	Stage 3	Total
RR 1-19				
Grade RR 1-17: Performing	24,626,807	378,651	-	25,005,458
Grade RR 18-19: Watchlist	27,141	1,912,730	-	1,939,871
Total – RR 1-19	24,653,948	2,291,381	-	26,945,329
RR 20-22: Non-performing	-	-	1,991,760	1,991,760
Total	24,653,948	2,291,381	1,991,760	28,937,089

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:

2023				
Total restructured portfolio - AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	71,641	1,061,276	648,141	1,781,058
Allowances for impairment (ECL)	(1,590)	(172,644)	(484,352)	(658,586)
Carrying amount	70,051	888,632	163,789	1,122,472
2022				
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)
Carrying amount	207,749	1,041,191	118,748	1,367,688

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

Restructured portfolio during the year AED'000	2023		2022	
	Post-modification	Pre-modification	Post-modification	Pre-modification
Outstanding balance				
Stage 1	-	-	-	3,033
Stage 2	14,494	20,213	1,441	3,388
Stage 3	-	-	-	-
Allowances for impairment (ECL)	(1,803)	(930)	(134)	(113)
Carrying amount	12,691	19,283	1,307	6,308

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 22.2% (2022: 20.4%) 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	
	2023	2022	2023	2022
12 month - Average	24.4%	20.3%	72.6%	77.8%
12 month - Highest	28.8%	24.9%	75.6%	81.5%
12 month - Lowest	20.9%	16.0%	67.3%	72.1%

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.

2023 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Cash and balances with the Central Bank of the UAE	3,522,106	100,000	2,554,122	5,280,554	-	-	11,456,782
Due from banks and financial institutions	1,648,044	227,110	89,635	136,711	-	-	2,101,500
Investments and Islamic instruments - fair value	46,783	58,800	139,376	198,254	2,587,238	-	3,030,451
Investments and Islamic instruments - amortised cost	-	195,234	18,360	117,996	4,122,835	657,728	5,112,153
Loans and advances and Islamic financing receivables	5,544,684	5,658,050	3,230,098	1,226,414	6,048,404	6,196,045	27,903,695
Acceptances and other assets	450,108	947,052	144,839	55,419	245	-	1,597,663
Property, equipment and intangibles	-	-	-	-	-	517,572	517,572
Total assets	11,211,725	7,186,246	6,176,430	7,015,348	12,758,722	7,371,345	51,719,816
Due to banks	1,102,796	-	-	34,281	-	-	1,137,077
Customer deposits and Islamic customer deposits	21,713,823	5,633,868	4,399,767	4,843,425	1,981,123	-	38,572,006
Repurchase agreements	180,439	397,739	-	174,234	1,471,466	277,454	2,501,332
Term borrowings	-	-	-	-	550,950	-	550,950
Acceptances and other liabilities	450,108	1,741,234	144,839	55,419	245	-	2,391,845
Total equity	-	-	-	-	-	6,566,606	6,566,606
Total liabilities and equity	23,447,166	7,772,841	4,544,606	5,107,359	4,003,784	6,844,060	51,719,816
On-Balance Sheet Gap	(12,235,441)	(586,595)	1,631,824	1,907,989	8,754,938	527,285	-
Cumulative Gap	(12,235,441)	(12,822,036)	(11,190,212)	(9,282,223)	(527,285)	-	-
2022							
Total Assets	12,915,888	8,183,364	5,972,191	3,913,883	8,805,837	7,833,105	47,624,268
Total liabilities and equity	24,043,849	6,288,665	4,474,824	4,444,222	2,522,244	5,850,464	47,624,268
On-Balance Sheet Gap	(11,127,961)	1,894,699	1,497,367	(530,339)	6,283,593	1,982,641	-
Cumulative Gap	(11,127,961)	(9,233,262)	(7,735,895)	(8,266,234)	(1,982,641)	-	-

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.

2023 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Guarantees	5,799,059	-	-	-	-	-	5,799,059
Letters of credit	406,531	869,147	180,490	70,918	626	-	1,527,712
Forward foreign exchange contracts	9,222,104	3,309,673	2,641,753	299,216	51,571	-	15,524,317
Currency options	348,973	150,482	716,113	412,900	1,057,823	-	2,686,291
Interest rate derivatives	25,000	-	1,507	102,695	1,200,473	1,449,969	2,779,644
Commodity derivatives	63,749	749,320	-	45,839	-	-	858,908
Total	15,865,416	5,078,622	3,539,863	931,568	2,310,493	1,449,969	29,175,931

2022 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Guarantees	5,131,359	-	-	-	-	-	5,131,359
Letters of credit	294,284	686,196	230,209	49,737	6,105	-	1,266,531
Forward foreign 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
Total	12,718,479	5,421,203	4,662,266	2,227,416	6,213,547	1,680,561	32,923,472

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

Derivatives AED'000	2023				2022			
	Notional	Positive fair value	Negative fair value	Net	Notional	Positive fair value	Negative fair value	Net
Forward foreign exchange contracts	15,524,317	63,611	33,969	29,642	16,114,003	58,274	52,449	5,825
Currency options	2,686,291	4,027	4,027	-	5,144,174	36,478	36,478	-
Interest rate derivatives	2,779,644	44,385	37,575	6,810	4,610,569	79,701	65,939	13,762
Commodity derivatives	858,908	10,014	7,006	3,008	656,836	10,200	7,545	2,655
Total	21,849,160	122,037	82,577	39,460	26,525,582	184,653	162,411	22,242

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 2023 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.

2023 AED'000	Carrying amount	Gross notional outflows	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Financial liabilities								
Due to banks	1,137,077	1,144,333	1,108,257	-	-	36,076	-	-
Customer deposits and Islamic customer deposits	38,572,006	39,362,030	21,803,622	5,784,888	4,576,273	5,115,317	2,081,930	-
Repurchase agreements	2,501,332	2,776,445	185,408	424,119	23,799	223,755	1,632,653	286,711
Team borrowings	550,950	661,202	-	9,287	8,985	16,236	626,694	-
Acceptances and other liabilities	2,111,745	2,111,745	450,108	1,461,134	144,839	55,419	245	-
Total	44,873,110	46,055,755	23,547,395	7,679,428	4,753,896	5,446,803	4,341,522	286,711

(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 2023 and 2022:

Investments classified as FVTPL	Assumed level of change %	Impact on profit and regulatory capital 2023 AED'000	Impact on profit and regulatory capital 2022 AED'000
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Reference benchmarks:

Fair value of managed funds	10%	1,921	1,988
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Investments classified as FVOCI	Assumed level of change %	Impact on equity 2023 AED'000	Impact on equity 2022 AED'000
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Reference benchmarks:

Quoted debt securities / Islamic Sukuks	10%	241,633	211,436
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Other investments	10%	60,242	57,090
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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
Open position			
2023 (AED'000)	715,113	33,034	10,178
2022 (AED'000)	135,142	7,007	37,633
Assumed change in exchange rates	5%	5%	5%
Impact on exchange income from increase in exchange rates:			
2023 (AED'000)	35,756	1,652	509
2022 (AED'000)	6,757	350	1,882
Impact on exchange income from decrease in exchange rates:			
2023 (AED'000)	(35,756)	(1,652)	(509)
2022 (AED'000)	(6,757)	(350)	(1,882)

At 31 December 2023, the impact on exchange income due to change in exchange rate by 5% is **±23.05%** (2022: ±4.96%). Excluding the impact of US\$ open position, the impact is **±1.31%** (2022: ±1.23%).

Interest rate risk

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

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

5.8% (2022: 6.3%) 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

2023 (AED'000)	76,240	11,034	(157)	329	87,446
2022 (AED'000)	97,709	25,606	(121)	(5,710)	117,484

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

2023 (AED'000)	(76,364)	(11,405)	114	(606)	(88,261)
2022 (AED'000)	(97,757)	(26,318)	108	4,369	(119,598)

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

	2023		2022	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	1.28%	-1.28%	2.41%	-2.45%
50	2.56%	-2.55%	4.81%	-4.90%
100	5.13%	-5.18%	9.62%	-9.79%

Impact on regulatory capital

	2023		2022	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	0.33%	-0.33%	0.48%	-0.49%
50	0.65%	-0.65%	0.95%	-0.97%
100	1.31%	-1.32%	1.91%	-1.94%

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.

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:

2023 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 to 5 years	Over 5 years	Non-interest bearing items	Total
Cash and balances with the Central Bank of the UAE	1,100,000	100,000	2,554,122	5,280,554	-	-	2,422,106	11,456,782
Due from banks and financial institutions	803,148	230,351	89,895	136,711	-	-	841,395	2,101,500
Investments and Islamic instruments - fair value	459,370	58,800	102,108	131,126	2,273,913	-	5,134	3,030,451
Investments and Islamic instruments - amortised cost	-	182,094	18,360	117,996	4,135,975	657,728	-	5,112,153
Loans and advances and Islamic financing receivables	10,186,759	11,382,315	3,909,587	533,271	1,754,474	427,143	(289,854)	27,903,695
Acceptances and other assets	-	-	-	-	-	-	1,557,603	1,557,603
Total financial assets	12,549,277	11,953,560	6,674,072	6,199,658	8,164,362	1,084,871	4,536,384	51,162,184
Due to banks	1,102,796	-	-	34,281	-	-	-	1,137,077
Customer deposits and Islamic customer deposits	5,267,259	6,141,841	4,191,307	5,040,761	1,990,750	-	15,940,088	38,572,006
Repurchase agreements	1,550,603	440,686	-	85,052	424,991	-	-	2,501,332
Term borrowings	183,650	367,300	-	-	-	-	-	550,950
Acceptances and other liabilities	-	-	-	-	-	-	2,111,745	2,111,745
Total financial liabilities	8,104,308	6,949,827	4,191,307	5,160,094	2,415,741	-	18,051,833	44,873,110
Interest rate sensitivity gap								
On-balance sheet	4,444,969	5,003,733	2,482,765	1,039,564	5,748,621	1,084,871	(13,515,449)	6,289,074
Off-balance sheet	(28,559)	(55,095)	-	-	-	83,654	-	-
Cumulative	4,416,410	9,365,048	11,847,813	12,887,377	18,635,998	19,804,523	6,289,074	

2022

Cumulative interest rate sensitivity gap	5,308,506	12,478,544	14,146,828	12,948,086	16,990,281	18,017,580	5,507,251
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Interest rate yields

The average earning on placements and balances with banks was 5.4% (2022: 2.0%), on loans and advances and Islamic financing receivables was 7.2% (2022: 4.7%) and on the investment portfolio was 4.0% (2022: 2.8%). The average cost of customer deposits and Islamic customer deposits was 2.9% (2022: 1.2%) and of due to banks and term borrowings was 4.5% (2022: 2.3%).

Derivative financial instruments

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

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

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

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

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

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

The Group's exposure to interest rate swaps designated in hedge accounting relationships represents an amount of AED 210.8 million (31 December 2022: 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.

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

Hedging instrument

2023 AED'000	Assets	Liabilities	Notional
Derivatives held as fair value hedges			
Interest rate swaps	-	-	-
Derivatives held as cash flow hedges			
Interest rate swaps	-	1,230	210,835
Total derivative financial instruments	-	1,230	210,835
2022 AED'000	Assets	Liabilities	Notional
Derivatives held as fair value hedges			
Interest rate swaps	1,812	-	88,902
Total derivative financial instruments	1,812	-	88,902

The carrying value of investments (hedged item) is nil (2022: AED 84.6 million) and the accumulated amount of fair value adjustments to investments (hedged item) is nil (2022: AED 1.8 million). The gains / losses attributable to the hedged risk for investments were nil (2022: AED 1.8 million) and on the interest rate swaps (hedging instrument) nil (2022: AED 1.8 million). All the hedges were fully effective for the year ended 31 December 2023 and 31 December 2022.

(f) IBOR Reforms

The Group has concluded its LIBOR transition of all bilateral loans. There are very few syndicate loans which are under process of transitioning to RFR based indices. These syndicate loans are currently priced based on synthetic LIBORs as per the fallback language included in the existing documentation.

Financial assets:

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

Currency	2023 AED'000	2022 AED'000
USD	118,911	1,697,517
	118,911	1,697,517

Financial liabilities:

The Group has nil (2022: AED 178.7 million denominated in USD) floating-rate liabilities indexed to IBORs.

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

2023 AED'000	Non-derivative financial assets carrying value	Non-derivative financial liabilities carrying value	Derivative notional amount
LIBOR 1 month	-	-	-
LIBOR 3 month	34,774	-	-
LIBOR 6 month	84,137	-	-
	118,911	-	-

2022 AED'000	Non-derivative financial assets carrying value	Non-derivative financial liabilities carrying value	Derivative notional 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
	1,697,517	178,685	658,107

The table below indicates the notional amount and weighted average maturity of derivatives in hedging relationships analysed by interest rate basis. These are nil as financial instruments have transitioned to RFR

2023	Nominal amount AED'000	Average Maturity (Year)
Interest rate swap		
LIBOR 6 month	-	-
	-	-

2022	Nominal amount AED'000	Average Maturity (Year)
Interest rate swap		
LIBOR 6 month	49,586	0.5
	49,586	0.5

(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, model 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 sub-ordinated 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 2023	Basel III 2022
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.

	2023 AED'000	2022 AED'000
CET1 capital		
Share capital	2,120,000	2,000,000
Statutory reserve	1,054,121	981,616
Special reserve	679,967	607,462
Retained earnings	1,201,790	859,827
IFRS 9 transitional arrangement – ECL (stage 1 and 2) impact	84,406	145,679
Accumulated other comprehensive income	5,930	(52,192)
Regulatory deductions - intangibles	(144,713)	(49,732)
CET1 total	5,001,501	4,492,660
Additional tier 1 (AT1) capital		
Tier 1 capital securities (note 19)	1,285,550	1,285,550
Total tier 1	6,287,051	5,778,210
Tier 2 capital		
Collective impairment provision	396,045	377,362
Total tier 2	396,045	377,362
Total capital base (a)	6,683,096	6,155,572

	2023 Risk-weighted equivalent AED'000	2022 Risk-weighted equivalent AED'000
Risk weighted assets		
Credit risk	31,683,618	30,188,941
Market risk	64,748	58,816
Operational risk	3,504,166	2,902,177
Total risk weighted assets (b)	35,252,532	33,149,934
Capital adequacy ratio (a) / (b)	19.0%	18.6%
Tier 1 ratio	17.8%	17.4%
Common equity tier 1 ratio (CET 1)	14.2%	13.6%

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 ECAs, except that, for all GCC sovereigns a 0% weight has been applied.

Claims on public sector entities (PSEs)

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

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

Claims on multilateral development banks (MDBs)

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

Claims on banks

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

Claims on corporate portfolio

Claims on 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

2023 AED'000	On & off balance sheet gross outstanding	Credit risk mitigation (CRM)		On & off balance sheet net exposure after credit conversion factor (CCF)	Risk-weighted assets
		Exposure before CRM	CRM		
Claims on sovereigns	12,766,311	12,766,311	-	12,766,311	52,669
Claims on PSEs, GREs and Corporates	31,772,451	31,772,451	4,497,999	24,294,766	22,608,635
Claims on Banks and Multi Lateral Development Banks	8,859,187	8,539,648	-	8,820,994	3,874,379
Regulatory retail exposures	899,023	779,508	53,023	725,770	544,524
Residential retail portfolio	3,415,470	3,415,470	-	3,415,470	2,010,716
Commercial real estate	1,063,034	1,063,034	-	1,063,034	1,063,034
Past due exposures	1,914,570	473,271	23,527	450,071	520,350
Higher-risk categories	1,926	1,926	-	1,926	2,889
Credit valuation adjustment (CVA) risk	124,146	124,146	-	124,146	124,146
Other exposures	1,295,471	1,284,671	-	1,284,671	882,276
Total	62,111,589	60,220,436	4,574,549	52,947,159	31,683,618

2022 AED'000	On & off balance sheet gross outstanding	Credit risk mitigation (CRM)		On & off balance sheet net exposure after credit conversion factor (CCF)	Risk-weighted assets
		Exposure before CRM	CRM		
Claims on sovereigns	10,285,231	10,285,231	-	10,285,231	85,512
Claims on PSEs, GREs and Corporates	29,194,096	29,194,096	3,934,867	26,684,897	21,018,965
Claims on Banks and Multi 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 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
Total	57,699,008	55,028,248	5,171,428	53,810,601	30,188,941

Unutilized credit limits which are revocable at the discretion of the Bank amount to **AED 16,413.8 million** (2022: AED 13,838.0 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:

	2023 AED'000	2022 AED'000
Interest rate risk		
- Specific interest rate risk	248	975
- General interest rate risk	-	-
Equity position risk		
- General equity exposure risk	-	-
Foreign exchange risk	6,550	5,201
Option risk	-	-
Total market risk capital charge	6,799	6,176
Market risk – risk weighted assets	64,748	58,816

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. Assets and liabilities

6.1 Classification and measurement

The fair values and carrying values of the financial assets and liabilities (financial and non-financial) at 31 December 2023 and 2022 are as follows:

2023 AED'000	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Total
Assets				
Cash and balances with the Central Bank of the UAE	-	-	11,456,782	11,456,782
Due from banks and financial institutions	-	-	2,101,500	2,101,500
Investments and Islamic instruments	19,211	3,011,240	5,112,153	8,142,604
Loans and advances and Islamic financing receivables	-	-	27,903,695	27,903,695
Acceptances and other assets	-	-	1,597,663	1,597,663
Property and equipment and intangibles	-	-	517,572	517,572
Total assets	19,211	3,011,240	48,689,365	51,719,816
Liabilities				
Due to banks	-	-	1,137,077	1,137,077
Customer deposits and Islamic customer deposits	-	-	38,572,006	38,572,006
Repurchase agreements	-	-	2,501,332	2,501,332
Term borrowings	-	-	550,950	550,950
Acceptances and other liabilities	-	-	2,391,845	2,391,845
Total liabilities	-	-	45,153,210	45,153,210

2022 AED'000	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Total
Assets				
Cash and balances with the Central Bank of the UAE	-	-	9,718,922	9,718,922
Due from banks and financial institutions	-	-	2,347,975	2,347,975
Investments and Islamic instruments	19,884	2,679,473	3,650,561	6,349,918
Loans and advances and Islamic financing receivables	-	-	26,914,854	26,914,854
Acceptances and other assets	-	-	1,846,469	1,846,469
Property and equipment and intangibles	-	-	446,130	446,130
Total assets	19,884	2,679,473	44,924,911	47,624,268
Liabilities				
Due to banks	-	-	1,393,914	1,393,914
Customer deposits and Islamic customer deposits	-	-	35,735,934	35,735,934
Repurchase agreements	-	-	1,994,310	1,994,310
Term borrowings	-	-	440,760	440,760
Acceptances and other liabilities	-	-	2,208,886	2,208,886
Total liabilities	-	-	41,773,804	41,773,804

Fair value of investments and Islamic instruments measured at amortised cost amounted to **AED 4,992.4 million** (2022: AED 3,428.3 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.

6.2 Fair value measurement – fair value hierarchy:

2023 AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuku	2,416,329	2,416,329	-	-
Other investments	621,634	619,708	1,926	-
Forward foreign exchange contracts	15,524,317	-	29,642	-
Currency options	2,686,291	-	-	-
Interest rate derivatives	2,779,644	-	6,810	-
Commodity derivatives	858,908	-	3,008	-

2022 AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuku	2,114,364	2,114,364	-	-
Other investments	590,779	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	-

	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	2023	2022
Cash on hand	341,873	381,485
Certificates of deposit (CDs) with the Central Bank of the UAE	9,034,676	7,005,860
Regulatory cash reserve deposit	2,080,233	2,331,577
	11,456,782	9,718,922

8. Due from banks and financial institutions

8.1 By type

AED'000	2023	2022
Placements	741,235	562,148
Current accounts / term deposits	944,766	1,052,446
Bills discounted	420,000	738,915
	2,106,001	2,353,509
Less: Allowances for impairment (ECL) (note 12.1)	(4,501)	(5,534)
	2,101,500	2,347,975

Placements include a Wakala placement amounting to **AED 98.5 million** (2022: AED 128.6 million) undertaken through a Shari'ah-compliant Islamic window, NBF Islamic.

Current accounts / term deposits include cash collateral of **AED 36.4 million** (2022: AED 174.9 million) in respect of negative fair value of derivatives, in accordance with the agreements with interbank counterparties.

Bills discounted represent bank risk discounting portfolio to support customers' trade business.

8.2 By currency

AED'000	2023	2022
AED	220,544	426,995
USD	1,600,693	1,534,122
EUR	43,624	43,797
GBP	8,399	38,183
XAU	25,010	44,318
Others	207,731	266,094
	2,106,001	2,353,509
Less: Allowances for impairment (ECL) (note 12.1)	(4,501)	(5,534)
	2,101,500	2,347,975

8.3 By geographical area

AED'000	2023	2022
UAE	215,745	521,979
GCC	675,128	429,296
Europe	454,826	594,865
Americas	577,221	497,778
Others	183,081	309,591
	2,106,001	2,353,509
Less: Allowances for impairment (ECL) (note 12.1)	(4,501)	(5,534)
	2,101,500	2,347,975

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

AED'000	2023	2022
UAE	203,893	451,764
GCC	655,792	419,516
Europe	804,553	848,764
Americas	198,443	238,385
Others	243,320	395,080
	2,106,001	2,353,509
Less: Allowances for impairment (ECL) (note 12.1)	(4,501)	(5,534)
	2,101,500	2,347,975

8.4 Based on external credit ratings:

AED'000	2023	2022
AA	627	2,132
AA-	33,578	21,563
A+	35,930	45,435
A	1,197,784	1,024,317
BBB+	593,770	671,575
BBB	3,981	25,886
BBB- and below	240,331	562,601
	2,106,001	2,353,509
Less: Allowances for impairment (ECL) (note 12.1)	(4,501)	(5,534)
	2,101,500	2,347,975

8.5 Due from banks and financial institutions 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:

2023 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	2,130,149	-	-	2,130,149
Allowances for impairment (ECL) (note 12.1)	(4,501)	-	-	(4,501)
Carrying amount	2,125,648	-	-	2,125,648

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

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	2023	2022
Investments at fair value through profit or loss (FVTPL) (note 9.1)	19,211	19,884
Investments at fair value through other comprehensive income (FVOCI)		
Debt securities / Islamic sukuk (note 9.2)	2,416,329	2,114,364
Other investments / Islamic instruments (note 9.3)	602,423	570,895
	3,018,752	2,685,259
Investments measured at amortised cost		
Debt securities / Islamic sukuk (note 9.2)	5,125,292	3,659,768
	8,163,255	6,364,911
Less: Allowances for impairment (ECL) (note 12.1)	(20,651)	(14,993)
	8,142,604	6,349,918

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 7,426.2 million** (2022: AED 5,659.8 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 363.5 million** (2022: AED 640.9 million).

Debt securities portfolio include Islamic sukuk amounting to **AED 802.0 million** (2022: AED 903.7 million).

Debt securities portfolio include additional tier 1 perpetual bonds of **AED 115.4 million** (2022: AED 114.3 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 601.3 million** (2022: AED 569.8 million). No shares were purchased by the Bank during the year (2022: nil).

9.4 The dispersion of the investment portfolio is as follows:

AED'000	2023	2022
Government	2,504,677	1,658,144
Banks and financial institutions	5,036,943	3,690,654
Others	621,635	1,016,113
	8,163,255	6,364,911
Less: Allowances for impairment (ECL) (note 12.1)	(20,651)	(14,993)
	8,142,604	6,349,918

9.5 By geographical area:

AED'000	2023	2022
UAE	1,775,655	1,172,483
GCC	428,432	341,104
Europe	2,792,769	2,277,662
Americas	2,155,824	1,829,205
Others	1,010,575	744,457
	8,163,255	6,364,911
Less: Allowances for impairment (ECL) (note 12.1)	(20,651)	(14,993)
	8,142,604	6,349,918

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

AED'000	2023	2022
UAE	2,054,099	1,518,337
GCC	620,675	627,767
Europe	2,546,534	1,849,110
Americas	1,523,438	1,097,457
Others	1,418,509	1,272,240
	8,163,255	6,364,911
Less: Allowances for impairment (ECL) (note 12.1)	(20,651)	(14,993)
	8,142,604	6,349,918

Others include investments in multilateral development banks amounting to AED 403.4 million (2022: AED 522.9 million).

9.6 By currency:

AED'000	2023	2022
AED	260,957	144,375
USD	7,752,690	6,039,297
EUR	97,490	88,066
GBP	-	38,858
SGD	-	54,315
JPY	52,118	-
	8,163,255	6,364,911
Less: Allowances for impairment (ECL) (note 12.1)	(20,651)	(14,993)
	8,142,604	6,349,918

9.7 Based on external credit rating:

2023 AED'000	Debt securities / Islamic sukuku	Other investments	Total
AAA	70,884	-	70,884
AA	1,021,790	-	1,021,790
AA-	973,026	-	973,026
A+	201,283	113,476	314,759
A	637,739	482,374	1,120,113
A-	1,880,907	-	1,880,907
BBB+	2,080,158	-	2,080,158
BBB	416,574	-	416,574
BBB- and below	259,260	25,784	285,044
Less: Allowances for impairment (ECL) (note 12.1)	(18,303)	(2,348)	(20,651)
	7,523,318	619,286	8,142,604

2022 AED'000	Debt securities / Islamic sukuku	Other 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)
	5,760,559	589,359	6,349,918

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:

2023 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	8,137,470	-	-	8,137,470
Allowances for impairment (ECL) (note 12.1)	(20,651)	-	-	(20,651)
Carrying amount	8,116,819	-	-	8,116,819

2022 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)
Carrying amount	6,319,006	-	-	6,319,006

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	2023	2022
Overdrafts	1,988,396	2,153,354
Term loans	21,003,661	20,081,844
Loans against trust receipts	4,039,170	4,023,558
Bills discounted	2,195,592	2,292,094
Bills drawn under letters of credit	409,931	386,239
Gross loans and advances and Islamic financing receivables	29,636,750	28,937,089
Allowances for impairment losses (ECL) (note 12.1)	(1,733,055)	(2,022,235)
Net loans and advances and Islamic financing receivables	27,903,695	26,914,854

10.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to AED 3,993.7 million (2022: AED 3,190.7 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:

2023 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	26,259,891	2,207,549	1,679,876	30,147,316
Allowances for impairment (ECL) (note 12.1)	(188,434)	(458,984)	(1,085,637)	(1,733,055)
Carrying amount	26,071,457	1,748,565	594,239	28,414,261

2022 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)
Carrying amount	24,630,860	1,877,344	1,082,146	27,590,350

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

Outstanding Balance AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2022	24,863,960	2,317,638	2,430,987	29,612,585
Transferred from Stage 1	(561,449)	348,752	212,697	-
Transferred from Stage 2	176,792	(519,264)	342,472	-
Transferred from Stage 3	-	126,212	(126,212)	-
Originated / (derecognised) during the year	1,780,588	(65,789)	(212,496)	1,502,303
Written-off during the year	-	-	(967,572)	(967,572)
Gross carrying amount - 31 December 2023	26,259,891	2,207,549	1,679,876	30,147,316

Outstanding Balance AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2021	23,500,683	1,707,868	3,061,791	28,270,342
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 / (derecognised) during the year	1,505,745	513,566	70,806	2,090,117
Written-off during the year	-	-	(747,874)	(747,874)
Gross carrying amount - 31 December 2022	24,863,960	2,317,638	2,430,987	29,612,585

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

ECL AED'000	Stage 1	Stage 2	Stage 3	Total
ECL allowance - 31 December 2022	233,100	440,294	1,348,841	2,022,235
Transferred from Stage 1	(13,117)	27,782	123,126	137,791
Transferred from Stage 2	2,968	(45,215)	163,678	121,431
Transferred from Stage 3	-	480	(18,920)	(18,440)
Originated / (derecognised) during the year including changes in PDs / LGDs / EADs	(34,517)	35,643	436,484	437,610
Net allowance for impairment losses	(44,666)	18,690	704,368	678,392
Written-off during the year	-	-	(967,572)	(967,572)
ECL allowance - 31 December 2023	188,434	458,984	1,085,637	1,733,055

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

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	2023	2022
Contingent liabilities:		
Letters of credit covering movement of goods	1,527,712	1,266,531
Financial guarantees and other direct credit substitutes	928,336	827,984
Bid bonds, performance bonds and other transaction related contingencies	4,870,723	4,303,375
	7,326,771	6,397,890
Commitments:		
Undrawn irrevocable commitments - credit related	238,903	90,022
Commitments for future capital expenditure	125,649	126,734
	364,552	216,756
	7,691,323	6,614,646

The total undrawn commitments which are revocable at the discretion of the Bank amount to AED 16,413.8 million (2022: AED 13,838.0 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:

2023 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	6,690,731	226,462	163,555	7,080,748
Allowances for impairment (ECL) (note 12.1)	(19,986)	(2,943)	(117,630)	(140,559)
Carrying amount	6,670,745	223,519	45,925	6,940,189

2022 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	5,820,222	186,595	154,197	6,161,014
Allowances for impairment (ECL) (note 12.1)	(19,364)	(5,684)	(75,561)	(100,609)
Carrying amount	5,800,858	180,911	78,636	6,060,405

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

Outstanding balance AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2022	5,820,222	186,595	154,197	6,161,014
Transferred from Stage 1	(137,818)	119,756	18,062	-
Transferred from Stage 2	6,929	(53,317)	46,388	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	1,001,398	(26,572)	(55,092)	919,734
Written-off during the year	-	-	-	-
Gross carrying amount - 31 December 2023	6,690,731	226,462	163,555	7,080,748

Outstanding balance AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2021	5,489,636	153,273	481,505	6,124,414
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)	36,600
Written-off during the year	-	-	-	-
Gross carrying amount - 31 December 2022	5,820,222	186,595	154,197	6,161,014

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

ECL AED'000	Stage 1	Stage 2	Stage 3	Total
ECL allowances - 31 December 2022	19,364	5,684	75,561	100,609
Transferred from Stage 1	(673)	1,079	14,753	15,159
Transferred from Stage 2	47	(402)	29,534	29,179
Transferred from Stage 3	-	-	-	-
Originated / expired during the year including changes in PDs / LGDs / EADs	1,248	(3,418)	(2,218)	(4,388)
Net allowance for impairment losses	622	(2,741)	42,069	39,950
Written-off during the year	-	-	-	-
ECL allowance - 31 December 2023	19,986	2,943	117,630	140,559

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

The provision for ECL against the off-balance sheet exposures disclosed above 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:

2023 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
Stage 3	1,085,637	-	-	10,800	117,630	1,214,067	65.5%
Stage 2	458,984	-	-	39	2,943	461,966	18.9%
Stage 1	188,434	4,501	20,651	1,774	19,986	235,346	0.5%
	647,418	4,501	20,651	1,813	22,929	697,312	
Total ECL	1,733,055	4,501	20,651	12,613	140,559	1,911,379	3.9%
ECL rate	5.7%	0.2%	0.3%	1.2%	2.0%		

2022 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
Stage 3	1,348,841	-	-	2,700	75,561	1,427,102	52.9%
Stage 2	440,294	-	-	49	5,684	446,027	17.7%
Stage 1	233,100	5,534	14,993	3,722	19,364	276,713	0.7%
	673,394	5,534	14,993	3,771	25,048	722,740	
Total ECL	2,022,235	5,534	14,993	6,471	100,609	2,149,842	4.7%
ECL rate	6.8%	0.2%	0.2%	0.5%	1.6%		

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 2023 and 31 December 2022:

AED'000	Impairment reserve - General	Impairment reserve - Specific	Impairment reserve
At 1 January 2023	-	168,201	168,201
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	-	(168,201)	(168,201)
	-	(168,201)	(168,201)
At 31 December 2023	-	-	-

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

13. Other assets

AED'000	2023	2022
Accrued interest / profit	319,604	238,938
Prepayments and deposits	17,311	20,070
Fair value of derivatives	122,037	184,653
Others	74,854	224,583
Allowances for impairment (ECL) (note 12.1)	(10,800)	(2,700)
	523,006	665,544

14. Property, equipment and intangibles

AED'000	Freehold land	Buildings & leasehold improvements	Motor vehicles, furniture & equipment	Total	Intangibles
Cost					
At 1 January 2022	113,666	181,636	138,910	434,212	160,837
Additions	-	37	7,130	7,167	22,315
Disposals / others	-	6,713	(535)	6,178	-
At 31 December 2022	113,666	188,386	145,505	447,557	183,152
At 1 January 2023	113,666	188,386	145,505	447,557	183,152
Additions	10,000	3,372	9,587	22,959	62,100
Disposals / others	-	1,738	(1,016)	722	-
At 31 December 2023	123,666	193,496	154,076	471,238	245,252
Accumulated depreciation and amortisation					
At 1 January 2022	-	117,614	109,712	227,326	121,708
Charge for the year	-	9,881	12,031	21,912	11,711
On disposals / others	-	-	(535)	(535)	-
At 31 December 2022	-	127,495	121,208	248,703	133,419
At 1 January 2023	-	127,495	121,208	248,703	133,419
Charge for the year	-	9,667	10,403	20,070	14,064
On disposals / others	-	-	(1,016)	(1,016)	-
At 31 December 2023	-	137,162	130,595	267,757	147,483
Net book value					
At 31 December 2023	123,666	56,334	23,481	203,481	97,769
At 31 December 2022	113,666	60,891	24,297	198,854	49,733

Aforementioned disclosure relating to building and leasehold improvements includes right-of-use (ROU) assets amounting to **AED 11.5 million** (2022: AED 15.4 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 (2022: AED 1 each).

14.1 Capital work-in-progress

AED'000	2023	2022
Property and equipment	169,378	132,805
Intangibles	46,944	64,738
	216,322	197,543

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, repurchase agreements and term borrowings

AED'000	2023	2022
By type:		
Due to banks (note 15.1)	1,137,077	1,393,914
Repurchase agreements	2,501,332	1,994,310
Term borrowings (note 15.2)	550,950	440,760
	4,189,359	3,828,984

By geographical area:

UAE	1,575,064	1,268,254
GCC	276,999	3,597
Europe	1,863,795	1,818,218
Americas	18,832	295,052
Others	454,669	443,863
	4,189,359	3,828,984

As at 31 December 2023, due to banks include cash collateral of **AED 60.9 million** (2022: AED 74.3 million), in respect of positive fair value of derivatives, in accordance with the agreements with the interbank counterparties.

Due to banks include a Wakala borrowing amounting to **AED 100.0 million** (2022: 19.7 million) undertaken through a Shari'ah - compliant Islamic window, NBF Islamic.

The investment securities under repo agreements amounted to **AED 2,752.1 million** (2022: AED 2,081.0 million).

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

Loan no.	Year obtained	Maturity	Interest rate	2023 AED'000	2022 AED'000
1	2023	Aug-27	SOFR + Margin	183,650	-
2	2023	Sep-26	SOFR + Margin	183,650	-
3	2023	Dec-28	SOFR + Margin	183,650	-
4	2022	Jul-23	SOFR + Margin	-	183,650
5	2022	Apr-23	SOFR + Margin	-	110,190
6	2022	Apr-23	SOFR + Margin	-	91,825
7	2022	May-23	SOFR + Margin	-	55,095
				550,950	440,760

15.2 Due to banks include gold related borrowings amounting to **AED 378.8 million** (2022: AED 469.1 million) utilized to finance gold loans extended to customers on a matched basis.

16. Customer deposits and Islamic customer deposits

AED'000	2023	2022
By type:		
Demand and margin deposits	15,190,315	15,530,718
Saving deposits	711,494	642,221
Fixed term and notice deposits	22,670,197	19,562,995
	38,572,006	35,735,934

By geographical area:

UAE	36,593,397	33,171,083
GCC	696,037	1,379,432
Europe	1,098,081	1,031,666
Americas	100,945	11,234
Others	83,546	142,519
	38,572,006	35,735,934

16.1 Islamic customer deposits undertaken through a Shari'ah - compliant Islamic window, NBF Islamic.

AED'000	2023	2022
By type:		
Qard Islamic current accounts	574,066	387,430
Murabaha deposits	509,363	1,048,740
Wakala deposits	3,364,384	2,680,545
Mudaraba deposits	47,667	41,898
	4,495,480	4,158,613

17. Other liabilities

AED'000	2023	2022
Accrued interest / profit	409,055	190,926
Employee end of service and other long term benefits (note 17.1)	75,235	67,298
Accrued expenses	230,590	126,989
Board members' remuneration	5,500	5,500
Fair value of derivatives	82,577	162,411
Allowances for impairment for off-balance sheet items (note 12.1)	140,559	100,609
Others	371,859	370,457
	1,315,375	1,024,190

Accrued expenses include employee bonus amounting to **AED 72.5 million** pertinent to the current year ended 31 December 2023. Further, details of number of employees are covered in note 28 of these consolidated financial statements.

17.1 Employee end of service and other long term benefits

AED'000	2023	2022
At 1 January	67,298	57,779
Charge for the year	20,819	22,322
Payments during the year	(12,882)	(12,803)
At 31 December	75,235	67,298

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 2023, 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% (2022: 3.5%).

18. Shareholders' equity**18.1 Share capital**

AED'000	2023	2022
<i>Authorised, issued and fully paid:</i>		
2,120,000,000 shares of AED 1 each (2022: 2,000,000,000 shares of AED 1 each)	2,120,000	2,000,000

18.2 Proposed cash dividends and bonus issue

The Board of Directors proposed a distribution of bonus shares of 5.0% (2022: 6.0%) of share capital and cash dividend of 10.0% (2022: nil) of share capital for the year ended 31 December 2023. Accordingly, cash dividend per share amounted to AED 0.1 (2022: 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	2023	2022
Loans and advances and Islamic financing receivables (note 20.1)	2,012,175	1,364,829
Due from banks including the Central Bank of the UAE CDs (note 20.1)	386,211	123,195
Investments and Islamic instruments (note 20.2)	535,210	209,055
	2,933,596	1,697,079

20.1 Includes income from Islamic financing activities amounting to AED 349.5 million (2022: AED 182.6 million) for the year ended 31 December 2023.

20.2 Includes income from Islamic investment activities amounting to AED 22.2 million (2022: AED 15.6 million) for the year ended 31 December 2023.

21. Interest expense and distribution to Islamic depositors

AED'000	2023	2022
Due to banks including term borrowings	263,041	109,611
Customer deposits and Islamic customer deposits	965,697	366,292
	1,228,738	475,903

Includes distribution to Islamic depositors amounting to AED 221.2 million (2022: AED 82.7 million) for the year ended 31 December 2023.

22. Net fees and commission income

AED'000	2023	2022
Fees and commission income		
Letters of credit	92,081	102,119
Letters of guarantee	67,628	54,437
Lending fees	196,212	166,151
Asset management and investment services	850	1,639
Commission on transfers	52,017	40,174
Others	16,261	18,820
Total fees and commission income	425,049	383,340
Fees and commission expense		
Brokerage expense	12,374	10,122
Card related charges	40,206	31,968
Other charges	5,627	8,701
Total fees and commission expense	58,207	50,791
Net fees and commission income	366,842	332,549

23. Foreign exchange and derivatives income

AED'000	2023	2022
Foreign exchange income	155,722	153,174
Derivatives income	8,773	28,203
	164,495	181,377

24. Other operating income

AED'000	2023	2022
Rental income	87	151
Rebates	10,656	9,854
Other miscellaneous income (note 24.1)	40,184	50,714
	50,927	60,719

24.1 Other miscellaneous income includes recovery against bad debts amounting to AED 18.0 million (2022: AED 28.6 million) for the year ended 31 December 2023.

25. Social contributions

The social contributions made during the year to various beneficiaries amount to AED 5.4 million (2022: AED 5.7 million).

26. Net impairment losses

AED'000	2023	2022
Loans and advances and Islamic financing receivables, acceptances, other assets and off-balance sheet items	854,378	890,170
Due from banks and financial institutions	(1,033)	(2,852)
Investments and Islamic instruments	5,658	8,720
	859,003	896,038

27. Earnings per share

The calculation of earnings per share is based on net profit of AED 649.5 million (2022: AED 264.9 million), after deduction of AED 75.5 million (2022: 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 2,120 million (2022: 2,120 million shares after adjusting for bonus shares) outstanding during the year.

28. Employee details

The number of employees at 31 December 2023 were 802 including 660 employed by the Bank of which 330 were UAE nationals (2022: 763 including 632 employed by the Bank of which 307 were UAE nationals).

29. 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 2023 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

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 directors and shareholders of the group, are as follows:

AED'000	2023	2022
Statement of financial position items		
Loans and advances and Islamic financing receivables	3,583,682	3,583,048
Customer deposits and Islamic customer deposits	9,948,263	8,814,053
Investments and Islamic instruments	136,332	147,650
Acceptances	34,780	21,095
Tier 1 capital securities	293,840	293,840
Contingent liabilities		
Letters of credit	115,179	56,093
Financial guarantees and other direct credit substitutes	36,870	58,085
Transaction related contingencies	596,391	269,644
Statement of changes in equity items		
Tier 1 capital securities coupon paid	17,264	17,264
Statement of income items		
Interest income and income from Islamic financing and investment activities	198,287	130,889
Interest expense and distribution to Islamic depositors	427,680	183,132
Other income	14,263	10,619
Operating expenses	31,838	29,038
Key management compensation		
Salaries and other short-term benefits	28,037	24,607
Employee end of service benefits	1,007	1,249
Board members' remuneration		
	5,500	5,500

No stage 3 provisions for impairment have been recognized pertinent to related parties (2022: nil). Further, stage 1 and 2 ECL amounted to AED 15.9 million (2022: AED 16.1 million).

The loans and advances and Islamic financing receivables given to related parties have been secured against collateral amounting to AED 2,220.2 million (2022: AED 2,219.0 million).

During the year, capital expenditure transactions with related parties amounted to AED 3.2 million (2022: AED 2.2 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	2023	2022
Cash on hand	341,873	381,485
Balances with the Central Bank of the UAE	1,100,000	2,499,098
Due from banks with less than three months maturity	1,090,975	1,394,215
	2,532,848	4,274,798

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 2,632.8 million are maturing within three months from 31 December 2023 (AED 5,141.6 million maturity within three months from 31 December 2022).

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:

2023 AED'000	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Net interest income and net income from Islamic financing and investment activities	696,514	539,969	167,431	300,944	1,704,858
Non-interest income	198,062	189,629	18,152	172,263	578,106
Operating income	894,576	729,598	185,583	473,207	2,282,964
Operating expenses	(246,125)	(293,872)	(111,835)	(47,062)	(698,894)
Operating profit	648,451	435,726	73,748	426,145	1,584,070
Net impairment losses	(742,270)	(77,392)	(35,575)	(3,766)	(859,003)
Profit / (loss) for the year	(93,819)	358,334	38,173	422,379	725,067
Segment assets	17,536,343	7,719,715	4,472,140	21,991,618	51,719,816
Segment liabilities	25,485,993	11,141,104	4,611,928	3,914,185	45,153,210
Capital expenditure	-	-	-	106,686	106,686

2022 AED'000	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Net interest income and net income from Islamic financing and investment activities	555,458	425,726	144,511	95,481	1,221,176
Non-interest income	183,255	172,755	14,719	222,682	593,411
Operating income	738,713	598,481	159,230	318,163	1,814,587
Operating expenses	(200,284)	(241,464)	(100,570)	(35,850)	(578,168)
Operating profit	538,429	357,017	58,660	282,313	1,236,419
Net impairment losses	(791,352)	(81,317)	(13,671)	(9,698)	(896,038)
Profit / (loss) for the year	(252,923)	275,700	44,989	272,615	340,381
Segment assets	18,185,713	6,961,737	4,098,646	18,378,172	47,624,268
Segment liabilities	24,627,025	10,182,512	3,425,727	3,538,540	41,773,804
Capital expenditure	-	-	-	83,685	83,685

33. Zakat payable

Zakat payable by shareholders amounting to AED 0.0025 per share (2022: AED 0.0022) is computed based on "Net Invested Funds Method" in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions (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. Audit and non-audit fees

The fees pertinent to audit and non-audit related services provided by PricewaterhouseCoopers (PwC) have been presented as follows:

AED'000	2023	2022
Audit fees	690	690
Non-audit fees	1,502	2,190
	2,192	2,880

The non-audit fees include AED 1.46 million (2022: AED 2.19 million) attributable to PwC Technology Academy, effective from 2021, as part of the bank's corporate social responsibility initiatives.

35. Restatement of 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.

During the year, the Group has changed its classification of repurchase agreements within the consolidated statement of financial position. Repurchase agreements which were previously classified within due to banks have now been presented separately on the face of the consolidated statement of financial position.

The Group believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change has been made retrospectively and comparatives have been restated accordingly.

Statement of financial position

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2022:

Financial statement line items AED'000	As previously reported	Reclassification	As restated
Due to banks	3,388,224	(1,994,310)	1,393,914
Repurchase agreements	-	1,994,310	1,994,310

The effect of reclassifications for presentation purposes was as follows on amounts at 1 January 2022:

Financial statement line items AED'000	As previously reported	Reclassification	As restated
Due to banks	2,133,539	(1,152,119)	981,420
Repurchase agreements	-	1,152,119	1,152,119

Cash Flow statement

No change in the total cash used in operating activities for the year ended 31 December 2022. However, the impact of change in due to banks and change in repurchase agreements for the year ended 31 December 2022 is as follows:

Cash flow statement AED'000	As previously reported	Reclassification	As restated
Change in due to banks	1,254,685	(842,191)	412,494
Changes in repurchase agreements	-	842,191	842,191

36. Subsequent Events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements for the year ended 31 December 2023.

OUR NETWORK

HEAD OFFICE: Hamad Bin Abdullah Street, PO Box 887, Fujairah Tel: 600 565551 Fax: +971 9 222 7992

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

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

Al Mandhour St.
Opposite Al Ain Mall
Al Ain
Tel: 600 565551
Fax: +971 3 764 8156

SHARJAH

SHARJAH BRANCH

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

Corporate Representative Offices

NBF DIAMOND FINANCING OFFICE

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

NBF CORPORATE BANKING OFFICE

Faya Business Building, 5th Floor
(opp. Al Majaz Park and Khalid Lake)
Al Majaz 2, PO Box 1416, Sharjah
Tel: 600 565551
Fax: +971 6 525 5887

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