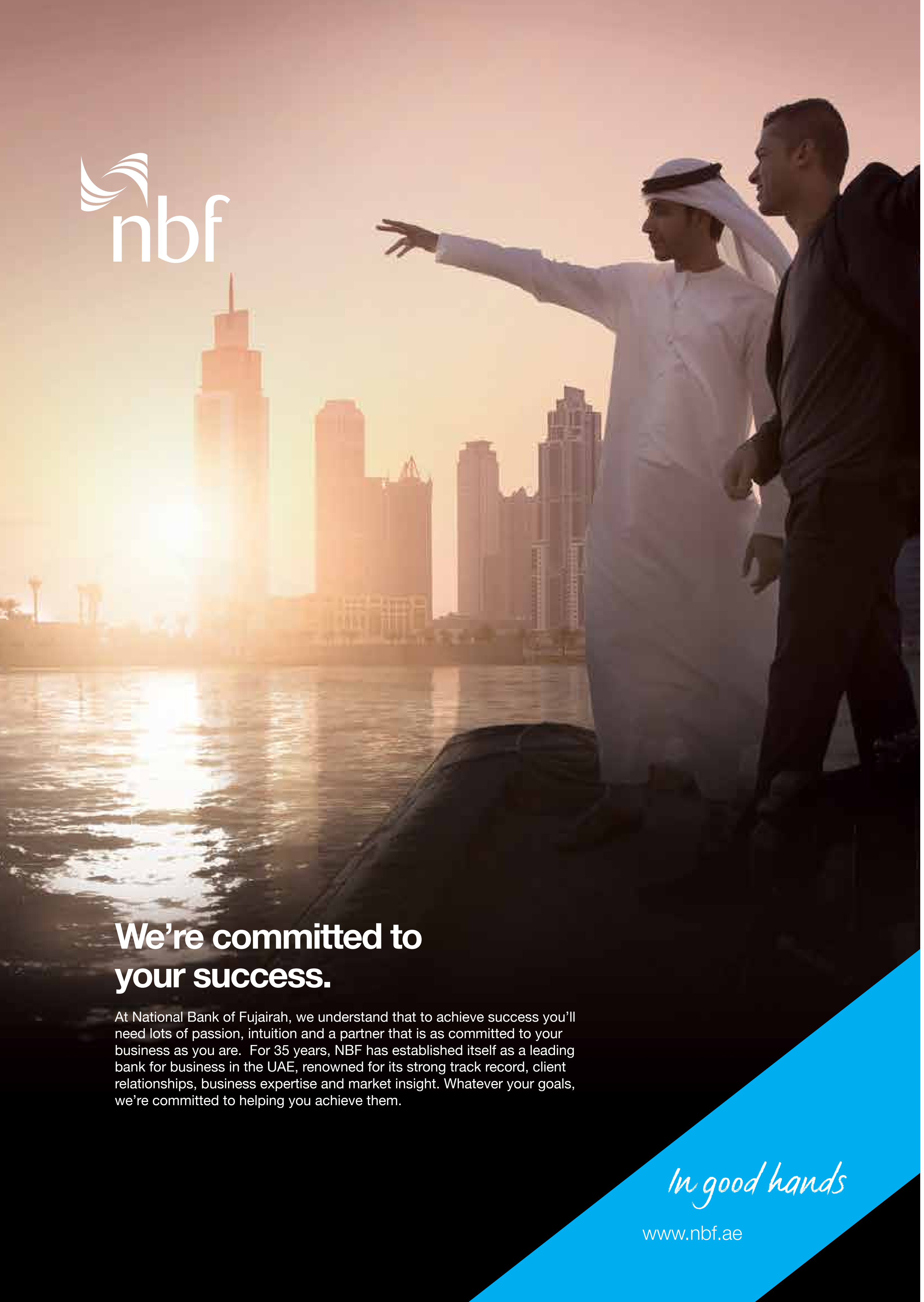
بنك الفجيرة الوطني
National Bank of Fujairah

ANNUAL REPORT 2017

ANNUAL REPORT 2017

التقرير السنوي ٢٠١٧



HIS HIGHNESS SHEIKH KHALIFA BIN ZAYED AL NAHYAN

President of the UAE

HIS HIGHNESS SHEIKH MOHAMMED BIN RASHID AL MAKTOUM

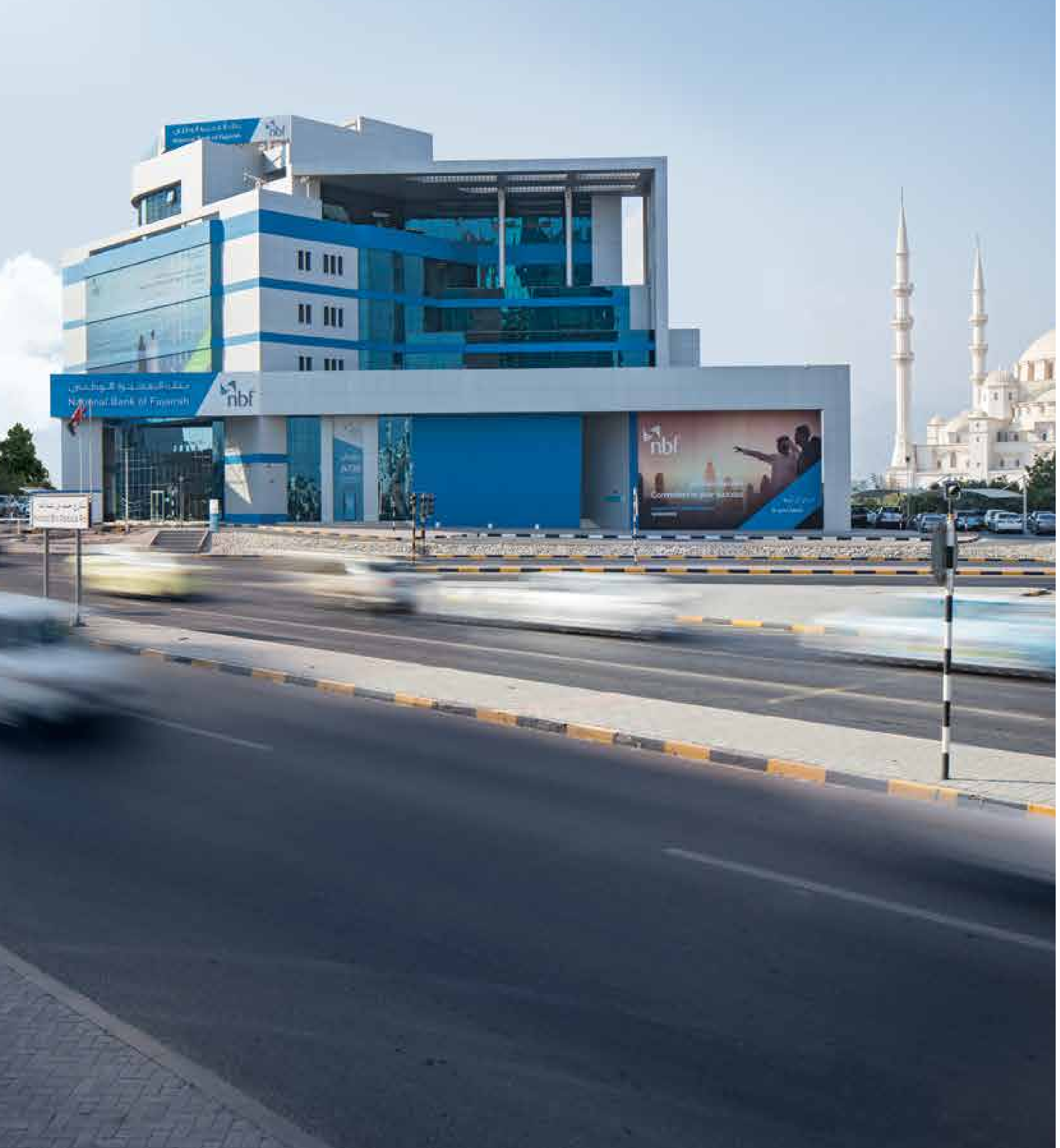
Vice President and Prime Minister of the UAE and Ruler of Dubai

HIS HIGHNESS SHEIKH HAMAD BIN MOHAMMED AL SHARQI

Member of the Supreme Council and Ruler of Fujairah

NBF
AN INTRODUCTION

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



NATIONAL BANK OF FUJAIRAH, THE FINANCIAL PARTNER FOR BUSINESS, FOCUSED ON YOUR PERSONAL AND PROFESSIONAL NEEDS

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

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

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

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

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

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

OUR NETWORK

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

Fujairah

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

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

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

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

Qidfah Branch
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PO Box 12002, Fujairah
Tel 600 565551
Fax +971 9 236 0494

Tawian Branch
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PO Box 30098, Fujairah
Tel 600 565551
Fax +971 7 258 4355

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

Fujairah Court Branch
Sheikh Khalifa Bin Zayed Road
Tel 600 565551

Dubai

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

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

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

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

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

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

Sharjah

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

Abu Dhabi

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

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

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

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

Al Ain

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

NBF Subsidiaries

Dubai

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

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

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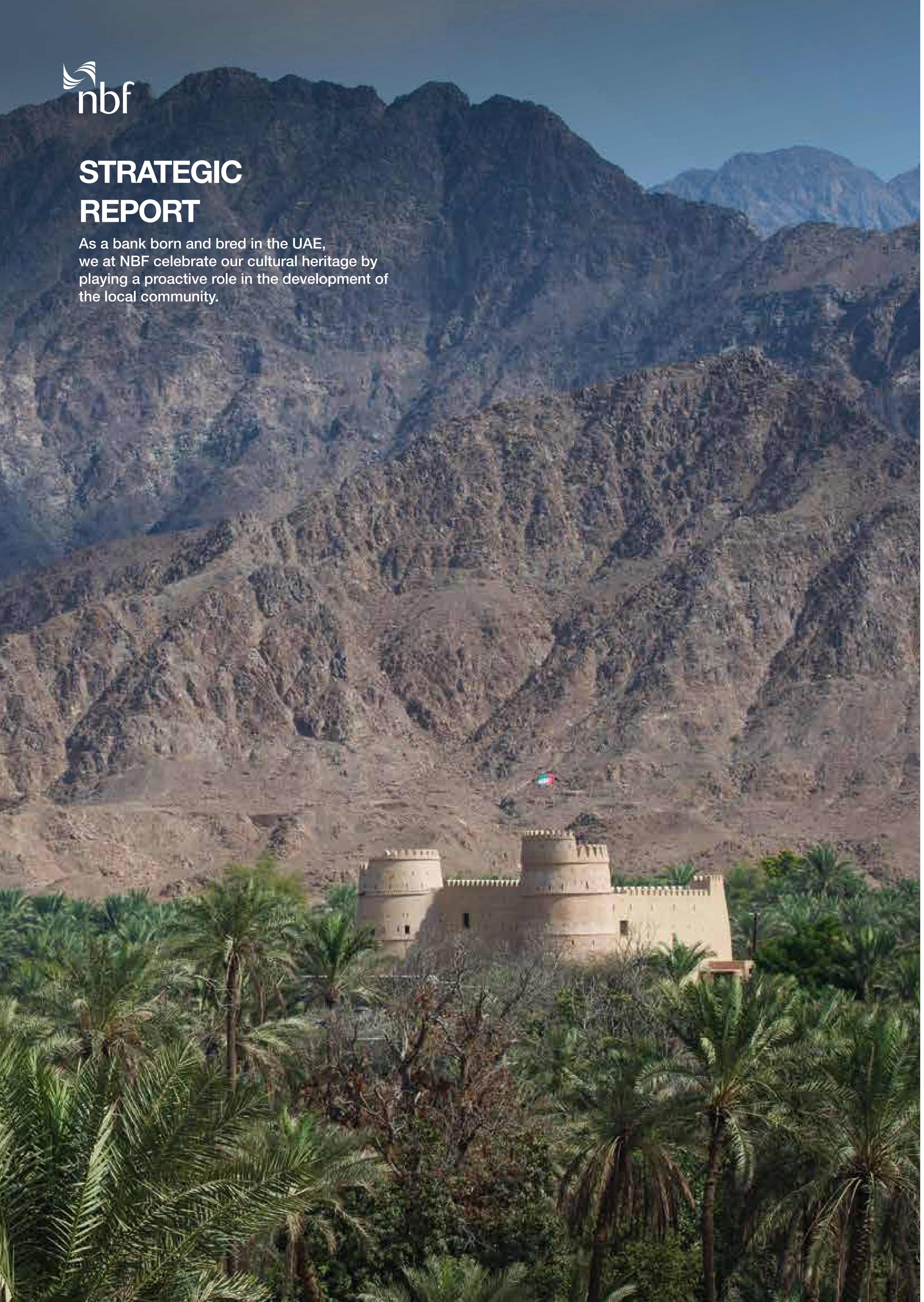
STRATEGIC REPORT

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



WHO WE ARE

NBF is one of the fastest-growing banks in the UAE with 35 years of exceptional customer service

Our renewed Vision, Mission and Values

Our Vision

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

Our Mission

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

Our Values

P	**Passion and Commitment**	Be ready to go the extra mile for the bank and for each other
R	**Respect**	Have mutual trust and understanding, appreciate and seek the views of others
I	**Integrity**	Be honest and transparent
D	**Dedication to team work**	Work toward shared, common goals. Build effective teams across organisational boundaries
E	**Excellence in service**	Make delivering an exceptional customer service the heart of everything we do

NBF AT A GLANCE

NBF is a full services bank with strong corporate and commercial banking, treasury and trade finance expertise as well as an expanding suite of personal banking options and Shari'a compliant services.

1982
Established

18
Branches

3
Subsidiaries

747
Employees

31,500
Customers

BBB+/A-
Rating

42%
Emiratisation ratio

More than
35
Nationalities

Operating income	Operating profit	Net profit
AED 1.4bn	AED 913.6m	AED 471.9m
(2016: AED 1.3bn)	(2016: AED 866.0m)	(2016: AED 460.4m)

Key Financial Performance Metrics

10.0%
Return on average equity

1.3%
Return on average assets

15%
Dividend pay-out

YEAR-ON-YEAR INDUSTRY ACCOLADES

2017

- **Best Corporate Bank UAE** – Banker Middle East UAE Industry Awards
- **Best Commercial Bank UAE** – Banker Middle East UAE Industry Awards
- **Best Customer Service** – **Corporate and Investment Banking** – Banker Middle East UAE Product Awards
- **Best Corporate Advisory Service** – Banker Middle East UAE Product Awards
- **Best Treasury Management** – Banker Middle East UAE Product Awards
- **Best SME Internet Banking Service** – Banker Middle East UAE Awards
- **Best SME Trade Finance Offering** – Banker Middle East UAE Awards
- **Best Islamic Window UAE** – Islamic Business and Finance, CPI
- **Shari'a compliant Window 2017** – The Banker's Islamic Bank of the Year Awards
- **Ranked as the 4th and the highest ranked UAE publicly listed company amongst the most successful listed businesses across the GCC in the Top CEO Awards organised by** Trends magazine in association with Insead Business School and Hawkamah
- **Outstanding Employer in the Middle East Award** by Korn Ferry Employee Engagement
- **CFO of the Year Award in the banking and finance category** The CFO Middle East Awards 2017
- Abu Dhabi Securities Exchange (ADX) Award for **Outstanding Performance in disclosing half year financial results**
- **All-Rounder Credit Card of the Year voted** by YallaCompare Banking Awards H1 2017
- **HR Team of the Year** – **Winner**, Gulf Employee Experience Awards 2017
- Korn Ferry Employee Engagement Awards – **Winner Middle East 2017**
- **HR Team of the Year** – **Winner**, 2017 MENA HR Excellence Awards
- **Mark of Excellence for Nationalisation Initiative of the Year & HR Team of the Year** – 2017 HR Excellence Awards **Finalist** Daman Award for Corporate Health and Wellness Initiative 2017

2016

- **Best Corporate Bank UAE –** Banker Middle East UAE Industry Awards
- **Best Commercial Bank UAE –** Banker Middle East UAE Industry Awards
- **Bankers' Choice Award –** The Asian Banker, Middle East and Africa
- **Best New Islamic Window UAE –** Islamic Business and Finance Awards
- **Best Customer Service-Corporate and Investment Banking –** Banker Middle East UAE Product Awards
- **Best Corporate Advisory Service –** Banker Middle East UAE Product Awards
- **Best Cash Management –** Banker Middle East UAE Product Awards
- **Best Treasury Management –** Banker Middle East UAE Product Awards
- **Best Innovation in Employee Engagement –** HR Excellence Awards 2016
- **Mark of Excellence for Nationalisation initiatives –** Middle East HR Excellence Awards
- **Best Employer Brand on LinkedIn –** LinkedIn MENA Talent Awards

2015

- **Best Corporate Bank UAE –** Banker Middle East UAE Industry Awards
- **Best Commercial Bank UAE –** Banker Middle East UAE Industry Awards
- **Best Customer Experience Team (NBF Capital) –** Gulf Customer Experience Awards
- **Best Local Bank UAE –** EMEA Finance Middle East Banking Awards
- **Best Corporate Advisory Service –** Banker Middle East UAE Product Awards
- **Best SME Customer Service –** Banker Middle East UAE Product Awards
- **Best SME Trade Finance Offering –** Banker Middle East UAE Product Awards
- **Best SME Internet Banking Service –** Banker Middle East UAE Product Awards
- **Best Treasury Management –** Banker Middle East UAE Product Awards
- **2015 CIO 100 Awards –** Computer News Middle East (CNME)
- **Upholding the highest standards of transparency and governance –** Hawkamah Institute of Corporate Governance

2014

- **Best Trade Finance Bank –** Trade and Export Excellence Awards
- **Best Domestic Commercial Bank –** Banker Middle East UAE Industry Awards
- **Best Treasury Management –** Banker Middle East UAE Product Awards
- **Best SME Trade Finance Offering –** Banker Middle East UAE Product Awards
- **Best Customer Service Corporate and Investment Banking –** Banker Middle East UAE Product Awards

2013

- **Best Domestic Commercial Bank –** Banker Middle East UAE Industry Awards
- **Best Treasury Management –** Banker Middle East UAE Product Awards
- **Best SME Trade Finance Offering –** Banker Middle East UAE Product Awards
- **Best Foreign Exchange Service –** Banker Middle East UAE Product Awards

CHAIRMAN'S STATEMENT

NBF posted a good set of results during this protracted period of low growth environment marked by unprecedented change, which is a testament to its agile business model and exceptional customer service. NBF recorded a year-on-year growth of 5.5% to close the year at an operating profit of AED 913.6 million.

"NBF delivered strong core performance through its renewed focus on being the financial partner for business, and meeting its customers' professional and personal needs. NBF's customer centric business philosophy, successful track record of execution and proactive approach and adaptability to change enables it to achieve exceptional clients' satisfaction and generate competitive shareholder value by navigating through uncertain operating environment.

The Group underpins its strategy by maintaining focus on strong foundations, reputation and integrity: long term sustainable returns, protecting and enhancing value for its stakeholders, leading prudent risk management and corporate governance practices, robust balance sheet, capital adequacy and liquidity, leveraging technology and importantly enabling its highly engaged workforce.

The Board is confident about the continued development and success of the NBF franchise; and is optimistic about the Group's future and the opportunities for NBF in a changing world to move forward in 2018 in a much stronger position and enjoy a renewed period of impressive growth."

2017 turned out to be a productive year with the global economy beginning to see positive growth of around 2% and emerging markets in excess of 4%; no hard landing in China, the end of recessions in Brazil and Russia, falls in inflation that enabled central bank easing and stimulated domestic demand, a significant rise in crude oil and industrial metals. MSCI's world equity index, which tracks 47 countries, has been on an upward trajectory, up 22 per cent and almost US$ 9 trillion higher for the year.

The year was also marked by macroeconomic uncertainty, geopolitical tensions and divisive politics which affected client sentiments. This was combined with a number of new laws, prudential standards and regulations such as IFRS 9 which defines the new impairment provisioning requirements, Value Added Tax (VAT), Basel III capital and liquidity requirements and new draft corporate governance and risk management standards which will increase the cost of compliance and impact return on capital. Not least, fintech and digital technologies including robotics are gaining importance in a world of shrinking labour pools and governments will have to adjust redistribution mechanisms to support sections of the workforce that are losing out to technological change.

Against this backdrop, NBF's performance in 2017 was encouraging and once again demonstrated its resilience and ability to navigate through times of change and uncertainty and emerge stronger for future growth. NBF's strong operating performance on the back of improving margins, proactively managing liquidity and investments and disciplined cost management that enabled it to absorb elevated level of provisions and achieved a net profit growth of 2.5%. NBF delivered a net profit attributable to shareholders of AED 471.9 million compared to 2016 net profit of AED 460.4 million.

AWARDS AND ACCOLADES

We continue to be honored with a number of prestigious awards and endorsements throughout 2017 (covered on page 4), underscoring NBF's long outstanding culture of service excellence and client partnership. Notably, NBF received the "Best Corporate Bank Award" for three years in a row, "Best Corporate Advisory Service Award" for our subsidiary, NBF Capital and "Best New Islamic Window – UAE" for the second time. We won "Best Commercial Bank" and "Best Treasury Management Awards" for six consecutive years at the Banker ME Awards. In addition, the bank was also awarded the winner of the "Best Customer Service - Corporate and Investment Banking", "Best SME Internet Banking Service" and "Best SME Trade Finance Offering Award" for 2017. NBF also joined Nasdaq Dubai Murabaha platform for enhanced and efficient Islamic financing and the brand has been displayed on the NASDAQ Stock Exchange building in Times Square, New York, a proud moment for NBF.

Apart from the business awards, NBF was also recognised for its superior human resources management practices by a number of external players. NBF won the "HR Team of the Year" at the Gulf Employee Experience Awards 2017 and at the 2017 MENA HR Excellence Awards, bagged the "Mark of Excellence for Nationalisation Initiative of the Year and HR Team of the Year" at the 2017 HR Excellence Awards, and was the finalist at the Daman Award for Corporate Health and Wellness Initiative 2017.

As ever, we owe a huge amount to all our colleagues who have delivered the results/operating performance at the same time as working tirelessly to meet the customers' expectations of them. In a research study conducted by the Korn Ferry Hay Group, the bank was ranked amongst the top banks in the region in terms of staff satisfaction and placed NBF in their Global High Performing Organisations (HPO) peer group. Recently, NBF was the "Winner – Middle East" at the "Korn Ferry Employee Engagement Awards 2017. The award reflects the increased levels of engagement achieved over the last seven years which have led to improvements in the Group's customer service and financial performance.

The bank's sound fundamentals are further reaffirmed by its investment grade ratings of Baa1/Prime-2 for deposits and A3 for counterparty risk assessment by Moody's, and BBB+/A-2 by Standard & Poor's, both with a stable outlook. Capital Intelligence also reaffirmed NBF's financial strength outlook as 'stable'. The bank's Long Term Foreign Currency Rating (FCR) has been maintained at 'A-' since 2008, reflecting its prudent and proactive risk management practices and sound business model.

These external recognitions are all testament of the Group's ongoing commitment to its customers and staff.

SHAREHOLDERS' RETURNS

The Board recognises the importance of dividends to shareholders, and believes in balancing returns with investment in the brand to support future growth, while preserving strong capital ratios. Return on average equity stood at 10.0% compared to 10.4% in 2016. The book value per share stood at AED 2.85 (2016: AED 2.82) and earnings per share at AED 0.29 (2016: AED 0.29).

Taking into account the 2017 performance and in order to strengthen the Group's common equity tier 1 capital, I, on behalf of the Board of Directors, am pleased to recommend a distribution of profits of 15.0% (2016: 15.0%) in the form of cash dividends of 7.5% (2016: 7.5%) and bonus shares of 7.5% (2016: 7.5%) of paid-up capital.

STRATEGIC INITIATIVES

NBF is well positioned to navigate through the current uncertain market conditions on the back of strong capital and shareholders' support, customer centric approach, professional management and workforces, solid operating earnings and reliable liquidity position.

The Board is determined that the Group continues to acclimatize to the changing external environment and continue to look for business development opportunities which are less susceptible to current volatility for sustainable growth and healthy returns for shareholders.

The Board has approved the conversion of the first tranche of additional tier 1 capital of AED 500 million into common equity tier 1 capital subject to regulatory and shareholders' approvals to augment the Group's capital base in line with its growth prospects and Central Bank of the United Arab Emirates ('CBUAE') Basel III regulations. This will be followed by an additional tier 1 issuance for re-financing its tier 2 capital and to upgrade residual existing additional tier 1 issuances in line with the CBUAE Basel III standards.

The Group continues to prioritise the development of long term relationships with its customers. In responding to their increasingly sophisticated needs, we will continue to expand our overall franchise and invest in technology to enhance the service experience through greater use of Big Data and customer analytics and a location agnostic servicing model.

Our social media presence continues to be strengthened to enhance the group's visibility and improve customer reach. The bank has a well-established presence now on LinkedIn and Facebook and has recently launched its Instagram page, keeping us in touch with our followers, current and prospective business partners.

NBF 'Emirati lady entrepreneurs - Elham' and 'Ajyal' initiatives are targeted at establishing active engagement with existing customers through social media and create association with high profile local Emirati ladies and young Emirati students.

NBF will leverage its NBF Islamic success by enhanced commercialisation efforts to improve its market share. Retail priority banking launched in 2017 has seen a very encouraging response and 2018 will see the launch of a number of investment propositions aimed at the needs of this segment. In the meantime, the bank's new Investment Management Unit contributed a new stream of revenue for the Group through an expanded approach to proprietary equity investments.

NBF opened two full-fledged branches in the Fujairah Court premises and Al Ras, Dubai and a community based electronic banking service unit at Al Reef area in Abu Dhabi, thus taking our branch network to 18.

The Group is further investing in its risk management, compliance and internal control environment to augment its platform for future growth and information and cyber security is being enhanced commensurate to the new digitalisation initiative.

Whilst the bank has made great strides, we recognise the ongoing importance of generating growth in income together with strong cost and risk management. We aim to do this by deepening our customer relationships and attracting, developing and inspiring talent to drive a high performance culture. We aim to deliver a return on average equity in the range of 10% to 15% over a long term time horizon whilst maintaining the highest level of regulatory and legal compliance.

ASSURING OUR ON-GOING COMMITMENT TOWARDS THE SUCCESS OF OUR COUNTRY AND ITS PEOPLE

Looking back at the Group's long history of operation in the UAE, it is clear that periods of augmented uncertainty can create opportunities for our clients and for the Group. The actions we have taken in 2016 and 2017 are making us better able to find and execute those opportunities. NBF makes every effort to enhance the value our customers' gain from banking with us.

The UAE is forecast to outperform the region in GDP growth in the range of 2.9% to 3.6% for the next three years on the back of diversification. With expectations of improved stability in oil prices and continued strong performance for non-oil sectors, its diversified source of growth and solid operational framework will attract exports and investments. The country will also benefit from the Expo in Dubai in 2020. In the short term, the regional stand-off and geo-political situation can weigh on the expected growth rates, however, UAE's safe haven position will continue to be a significant benefit.

The UAE ranked 12th among the list of promising economies for investment through 2017 to 2019 according to the United Nations Conference on Trade and Development (UNCTAD) and ranked first regionally and 10th globally among the most competitive countries in the world, as per the report of Global Competitiveness Center of the International Institute for Administrative Development, Lausanne, Switzerland. The UAE has achieved outstanding performance in government efficiency, government policy flexibility, quality of government decisions and efficiency of residency laws.

In the UAE, efforts are being made to develop and upgrade the infrastructure and services of its ports as part of achieving the Government's vision of the UAE as an international player for international and regional trade.

The signing of a 35 year concession agreement between Abu Dhabi Ports and the Port of Fujairah for the establishment of "Fujairah Terminals", a new operational arm wholly owned by Abu Dhabi Ports demonstrates the efforts made to develop the UAE's strategic infrastructure in line with the vision of the leadership.

The development of the Port of Fujairah will help the facility keep pace with growth in trade and maritime transport. It is also an important part of the longer term plan to leverage the geography of this strategic port to contribute to the development of the UAE's commercial and tourism sectors.

Within the framework of the comprehensive future vision of the Emirate, the Government of Fujairah has also signed a partnership agreement with Minpoint Business Investments and NIRAS International Consultancy to begin the first phase of construction of the Smart Logistics City in Fujairah, a new and innovative way of conducting business in the UAE.

NBF has massive potential and a dedicated team, playing a major role in the development of the Fujairah Emirate and the UAE economy as a whole under the visionary and dynamic leadership of our President of the UAE and Ruler of Abu Dhabi, His Highness Sheikh Khalifa Bin Zayed Al Nahyan, and our Vice President and Prime Minister of the UAE and Ruler of Dubai, His Highness Sheikh Mohammed Bin Rashid Al Maktoum.

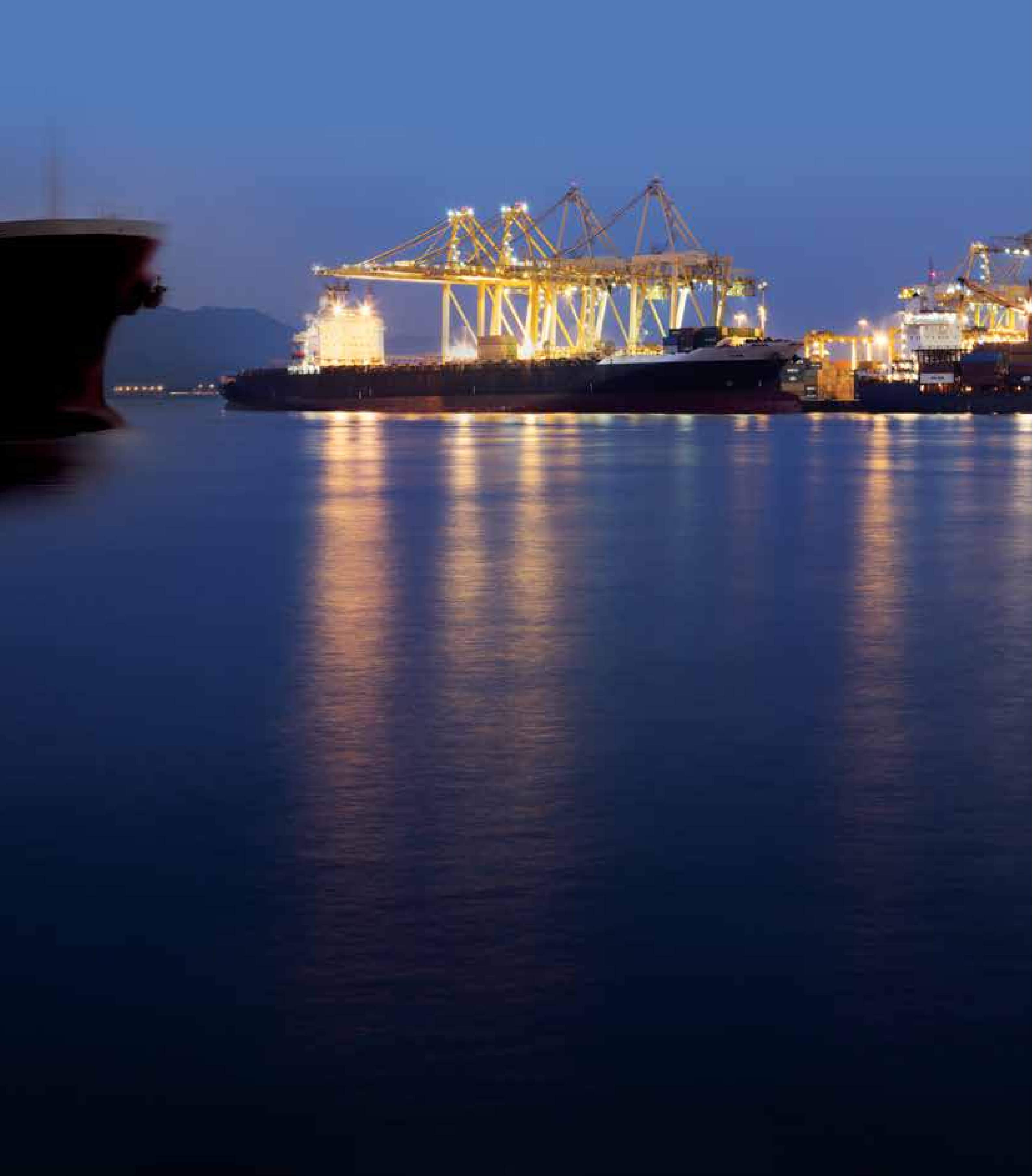
I would like to extend my gratitude to His Highness Sheikh Hamad Bin Mohammed Al Sharqi, member of the Supreme Council and Ruler of Fujairah, for his staunch support to the Group.

On behalf of the Board, we would like to take this opportunity to thank both our clients and our shareholders for their continued support and our employees for their dedication and commitment over the years.

Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman
05 February 2018

DIRECTORS' REPORT

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



DEPUTY CHAIRMAN'S STATEMENT

NBF - well positioned to capitalise on market opportunities and strengthen client partnerships

"2017 ends on a positive note, with a strong set of results, supported by high standards of corporate governance, compliance and risk management. Our relentless focus on our customer's needs and building an engaged and enabled work force, augur well for the effective delivery of our strategy for 2018."

In good hands

FINANCIAL RESULTS

The Group

Equity	Loans & advances	Deposits
AED 4.9bn	**AED 24.1bn**	**AED 27.9bn**
(2016: AED 4.6bn)	(2016: AED 22.8bn)	(2016: AED 25.9bn)

Key financial performance metrics

10.0% Return on average equity

17.5% Capital adequacy

24.1% Eligible liquid assets

FINANCIAL PERFORMANCE

NBF posted an operating profit of AED 913.6 million, a growth of 5.5% compared to AED 866.0 million in 2016 demonstrating its continued focus on quality core business growth and profitability. Operating income growth of 4.5% was achieved by enhanced balance sheet management in a rising interest rate environment, efficient management of liquidity and effective pricing strategies that helped in improving margins and return on capital.

Net interest income and net income from Islamic financing and investment activities grew by 8.2% to AED 917.6 million, compared to AED 848.2 million in 2016 due to growth in the underlying volume of core business, robust asset and liability management and improvement in margins.

Investment fair value gain increased to AED 19.3 million in 2017 compared to AED 11.1 million for the corresponding period in 2016 reflecting the Group's strategy to diversify risk and sources of income through increased focus on proprietary investments. Non-interest income was AED 461.0 million, 2.1% lower than the AED 470.9 million in 2016, primarily reflecting subdued business activity and credit growth in the market.

Operating expenses increased by 2.6% in 2017 to AED 464.9 million reflecting NBF's disciplined cost management, prudent investment in our businesses, systems and infrastructure, including a set of digital initiatives to enhance our offerings and customer service and investment in compliance and internal controls. Cost to income ratio improved to 33.7% compared to 34.4% in 2016.

The strong operating performance helped the Group respond well to the ongoing credit stress being experienced in the market; NBF's net impairment losses stood at AED 441.7 million compared to AED 405.5 million in 2016, an increase of 8.9%. The NPL ratio was 5.53% compared to 4.95% as at 31 December 2016 and total provision coverage ratio was 89.5% compared to 101.3% as at 2016 year end. During the year, recoveries stood at AED 82.0 million compared to AED 87.8 million in 2016, and write-offs amounted to AED 392.4 million compared to AED 254.8 million in the previous year.

The Group recorded a net profit of AED 471.9 million compared to AED 460.4 million in 2016, a growth of 2.5%. NBF's return on average equity was 10.0%, compared to 10.4% in 2016 and return on average assets was 1.3%, compared to 1.4% in 2016.

The NBF Group remains highly disciplined on maintaining a strong balance sheet, which continues to be highly liquid and well diversified. Growth in lending and deposits of 5.5% and 7.4% respectively in 2017 reflects the strength of the Group's customer relationships and its commitment to supporting the ongoing development of the UAE. The Group's growth is predicated on the availability of appropriate funding and despite tightening market conditions this has not proved to be a constraint in 2017. Furthermore, total assets grew 2.8% to AED 36.7 billion during this period, up from AED 35.7 billion at the end of 2016.

RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE

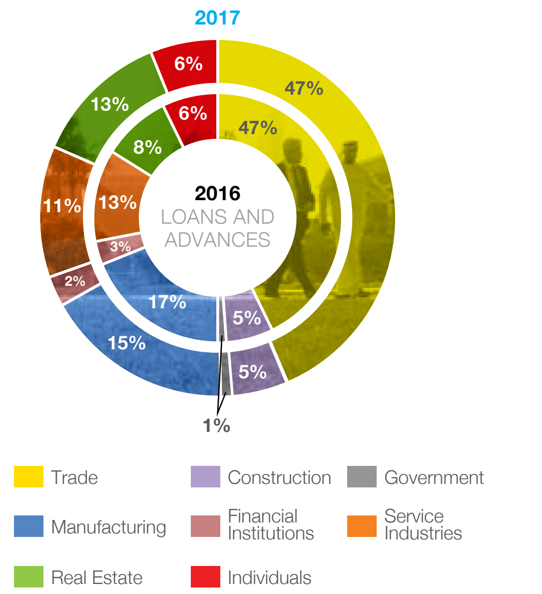
Effective risk management is a fundamental part of the Group's long term success factors hand in hand with sustainable returns and is thus a central part of the financial and operational management of the Group. Risk policies and strategies were dynamically adapted according to the market conditions and operating environment to ensure that they remain within the Group's overall risk appetite and are balanced with returns. The bank manages various risk elements in line with the Basel methodologies and best practices (i.e. a Three Lines of Defence risk philosophy) and during the year, the bank established a robust enterprise-wide risk management and governance framework as detailed in note 5 of the consolidated financial statements and corporate governance report.

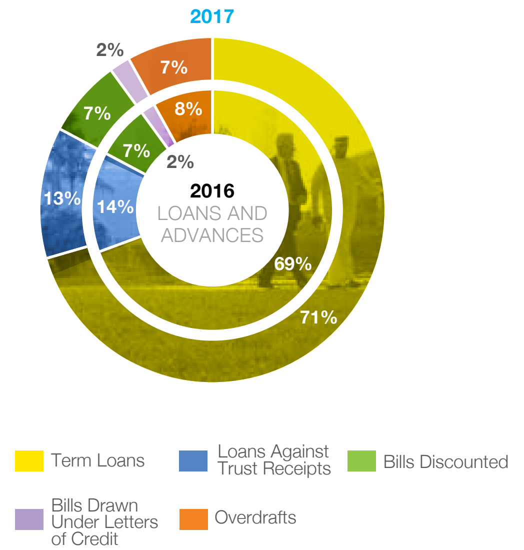
The first Risk Culture Survey was undertaken with over 80% staff participation, with results largely positive reflecting NBF's continued commitment to cultivate a risk intelligent culture. The intention of the survey was to better understand, measure and strengthen how the Group operates with a particular focus towards not limiting risk management as a control or audit function. The survey results have initiated various management actions that will be progressively implemented over the year 2018.

In 2017, the Group established an inaugural Risk Appetite Statement, articulating a structured approach towards the level and type of risk NBF is willing to assume to achieve our business objectives.

NBF has consistently looked to expand its customer base and reduce any systemic credit concentrations that exist. Exposure to its top 20 customers (funded) stood at 29.5% in 2011 which reduced to 26.2% in 2017 and after taking into account cash collateral, top 20 customers' exposure concentration (funded) stood at 23.4% in 2017. During the year, lending mix (by pledged deposits) stood at 26.1% compared to 30.2% in 2016; and lending mix (by property mortgage) increased to 32.7% in 2017 compared to 27.8% in 2016, which reflects the bank's continued focus on enhancing risk quality and mitigants.

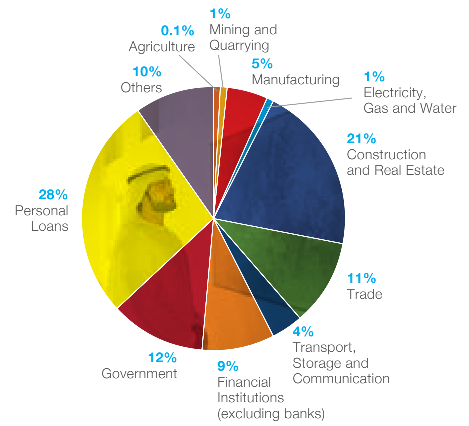
The bank also continuously monitors and manages its concentration risk from multiple perspectives through breadth of products, customer segments and sectors:



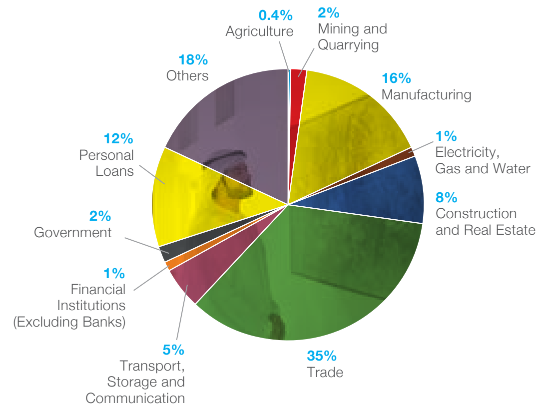


NBF's segmented focus, compared to the industry, continues to set it apart and reflects its prudent approach towards high risk sectors and focus on long term, sustainable results:

INDUSTRY (31 December 2017)



NBF (31 December 2017)



A detailed review conducted by Risk Management identified the need for a dedicated function within the bank to enhance credit monitoring activities. The Group centralised a number of credit monitoring activities, under the newly formed Credit Monitoring Unit (CMU), making the process efficient, consistent and effective across various business segments.

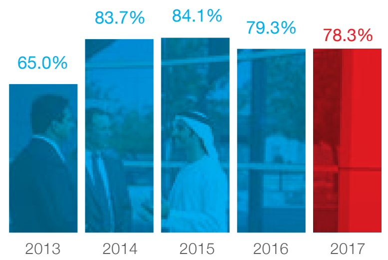
Financial stability was underpinned by maintaining strong levels of capital adequacy and liquidity relative to its risk profile, growth strategy and prudential requirements. Our focus on quality has contributed to the strength of our liquidity and areas of relative concentration have further improved during the year. The Group is predominantly deposit funded and its deposits to total assets ratio further improved to 76.0% compared to 72.7% in 2016. The bank's advances to deposits ratio improved to 86.4% from 2016 level of 88.0%. The bank's balance sheet is well-diversified and its eligible liquid assets ratio remains one of the highest at the industry level at 24.1% compared to 23.3% in 2016 while at the same time, the bank has improved the duration of its liabilities.

The bank continues to monitor liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) daily and qualitative aspects for the compliance of Basel III requirements are being progressively implemented. The Group has appointed an external independent firm to review and validate its liquidity models in line with Basel III requirements. At 31 December 2017, the bank's NSFR and LCR stood at 107.1% up from 103.0% in 2016 and 270.0% up from 182.0% in 2016 respectively.

NBF maintains prudent market risk limits and its trades are executed predominantly to support customer activities. The Group improved its investments to 5.2% of assets from 5.0% in 2016 and is further widening its investment activities following the establishment of its dedicated investment management unit. Fixed income fund investment undertaken with net asset value (NAV) of AED 207.0 million and equity fund investments undertaken with NAV of AED 80.9 million. Funds/equities residual value is AED 6.6 million. Investments in subsidiaries, amounted to AED 5.1 million, which include NBF Capital Limited investment of AED 5.0 million. NBF's debt investment portfolio is held with the principal objective of liquidity management in mind and comprises 84.5% of the debt securities portfolio rated "BBB+" and above, compared to 84.8% in 2016. NBF's equity investment portfolio is being developed as part of its revenue and risk diversification strategy. Investment income of AED 19.3 million included realised income from equity investments of AED 16.4 million. During the year, the bank's treasury front-end system went live and the bank monitors its foreign exchange and derivative products based on credit equivalent exposure (CEE) which is supported by the new system.

NBF is well poised to remain compliant with the increased requirements on the back of its strong current capital ratios and prudent dividend policy. Capital adequacy ratio stood at 17.5% with a tier 1 ratio of 15.1% and common equity ratio of 11.9%. The Board has further approved the plan for strengthening of the Group's capital structure in line with the Basel III requirements to support its growth strategy and prospects.

Profit Retention Ratio



NBF has always been committed to the highest compliance and anti-money laundering standards and the protection of the UAE financial system. The Group has segregated the compliance function from operational risk management for enhancing the dedicated focus in view of growing demands and increasing regulations. Accordingly, the Group appointed experienced professionals as Head of Compliance and Head of Operational Risk & Internal Control.

Subsequent to the above second line re-organisation, the compliance function has undertaken a best practice independent review of its compliance programmes, capabilities and systems. This has led to the development of an action plan for various areas for improvement, commencing with the establishment of a dedicated Compliance Committee represented by relevant senior management team members for greater oversight and enforcing renewed focus in line with best practices. Our anti-money laundering policies, procedures and systems are in line with the latest recommendations from the Financial Action Task Force (FATF), the international anti-money laundering regulatory body, UAE Federal Laws and guidelines from Central Bank of the UAE.

The Group is also closely aligned with the requirements of the National Electronic Security Agency (NESA) and is investing further in strengthening its information security commensurate to its digitalisation strategy.

NBF continues to complement its compliance efforts by progressively enhancing its employee training programmes. In 2017, the bank developed a mandatory and NBF specific e-learning training programme for all staff members. This training programme is further supported by ongoing development of supporting risk and compliance education initiatives that will assist staff to stay abreast of current developments and better fulfill their responsibilities.

KEY INITIATIVES

International Financial Reporting Standard (IFRS) 9 - 'Financial instruments': IFRS 9 sets out the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - Financial instruments: Recognition and Measurement. The standard includes the introduction of a forward-looking Expected Credit Loss (ECL) approach, replacing the incurred loss impairment approach for financial instruments in IAS 39, and the loss provisioning approach for financial guarantees and lending commitments in IAS 37, Provisions, contingent liabilities and contingent assets. NBF is ready for the adoption of IFRS 9 as at 1 January 2018 and have completed classification and measurement of its financial instruments and implemented the impairment process as per the new requirements of IFRS 9.

Capital allocations and profitability: As part of an enhanced focus on return on capital (ROC) and capital allocations, the Group has sensitised its ROC calculation with IFRS 9 impact. The Group has not only complied with the minimum requirements of IFRS 9 but have also been working to embed the principles in management practices. The Group has also carried out training and awareness sessions for its front line and a parallel run on frontline portfolios to prepare in advance and started taking measures to maintain and/or enhance profitability under the new rules.

Value Added Tax: Implementation of Value Added Tax (VAT) was a key initiative for NBF and has been successfully implemented from 01 January 2018. The Project Working Group with various workstreams and Steering Committee ensured smooth implementation with appropriate controls and governance over all decisions. The project structure has been maintained to address the critical requirements of the Federal Tax Authority (FTA) VAT Law and Executive Regulations and manage the appropriate involvement of key stakeholders during the initial period of implementation to ensure all customer and suppliers requirements with regard to tax invoices, reconciliation and so on are satisfactorily complied and tax returns and payments to FTA are accurately and diligently made.

People and Emiratisation Focus: NBF believes in providing initiatives to empower, educate and nurture talent to create future business leaders. The bank aims to attract, enable, develop and engage the best people with the right skills, responsible mindsets and diverse backgrounds.

We invest in our employees and seek to ensure that we have effective leadership and human resource practices in place, as well as the structure, technology and trainings necessary for our employees to deliver on our strategy and meet our customers' needs. These elements help create sustainable value for all our stakeholders. We continue to work hard to further strengthen our corporate culture, as we are convinced that the right strategy and a strong, cohesive culture drives excellent performance.

NBF's staff are one of the most motivated and engaged group of people in the local banking sector and across the region as evidenced by the 'Outstanding Employer in the Middle East' award by Korn Ferry Employee Engagement this year as well as 'HR Team of the Year' award at both the Gulf Employee Experience Awards 2017 and 2017 MENA HR Excellence Awards. These recognitions underscore NBF's exceptionally transparent and open culture and the value the bank places on talent development and in providing a stimulating work environment. The value of this approach is also underscored by the loyalty displayed by the bank's staff.

NBF's commitment to Emiratisation is commendable. Noteworthy is the appreciation received from Central Bank of the UAE towards exceeding the target in the first year of the new Emiratisation scoring method. NBF also received the 'Mark of Excellence for Nationalisation Initiative of the Year' and 'HR Team of the Year' at the 2017 HR Excellence Awards. Our Emiratisation ratio stood at 42.4% compared to 41.7% in 2016.

SEGMENT PERFORMANCE

NBF is widely recognised for its exceptional relationship management and delivery of the highest quality service to the customers and industry alike, as evidenced from the customer satisfaction survey recently concluded and a number of consistent awards won year on year. We aim to continue concentrating more on our client relationships by delivering excellent service to them, offering customised products and solutions proactively anticipating their needs. To this end, a dedicated product and channels team continues to work hand-in-hand with business segments to enhance customer experience. The Group has also embarked upon a digitalisation initiative to automate end-to-end processes and establish an effective location agnostic model for servicing its clients.

In 2017, NBF's customer satisfaction survey results continue to be encouraging and also highlighted some opportunities which the Group can further develop. Not only was NBF performing more favorably than banks from its peer group, the Group's service levels were increasingly compared to the larger local and multinational financial institutions - a comparison that highlights our consistency in delivering a superior brand of customer service. The Group's ability to facilitate banking relationships with top-notch service delivery and use of technology driven solutions is well regarded. Our relationship managers are known for their responsiveness, expertise and value additions. Customer opinion matters, insights into their requirements are valued and every customer is dealt with a personal response. Proactively reaching out to them has helped build lasting relationships, creating a progressive impact mutually.

CORPORATE AND INSTITUTIONAL BANKING

The operating income from corporate and institutional banking customers for the year was AED 1,126.6 million (2016: AED 1,071.9 million). This includes income from foreign exchange and derivatives of AED 83.7 million (2016: AED 88.6 million) and advisory services of AED 9.0 million (2016: AED 6.4 million) provided to these customers, which are reported under Treasury, ALM and Others segment.

The bank has re-positioned its popular Corporate Days as the NBF Knowledge Series, a broader networking event seeking to apprise the bank's clients with the latest market developments. The 2017 Knowledge Series brought together 700 UAE business leaders and analysts to a series of one-day networking sessions in Fujairah, Abu Dhabi and Dubai to identify and discuss trends, opportunities and challenges affecting companies in the UAE. The event invited industry experts from Institute of International Finance, Thomson Reuters and PricewaterhouseCoopers (PwC) covering global and regional macroeconomic landscape, outlook on currency markets and interest rate environment and update on statutory changes in the UAE.

As an extension of the Group's tradition as a trusted partner for business in the UAE, NBF's Gen-Next initiative, curated by Fitch Learning, explored financial principles crucial to business with focus on management competencies and leadership skills by hosting respective participants.

Corporate and Institutional (C&IB) Segments

NBF is highly regarded in the UAE as a trusted banking partner, and has received further acclaim by being awarded the winner of the 'Best Corporate Bank UAE 2017' at the Banker ME industry awards 2017 for three years in a row. NBF's corporate and institutional banking segments represent 55.8% of the Group's operating income, compared to 54.7% in 2016. The segment's operating income stood at AED 769.6 million compared to AED 721.2 million in 2016. Additionally, assets reached AED 21.2 billion, with an increase of 1.3% from AED 21.0 billion in 2016, while liabilities increased by 1.4% to AED 24.3 billion compared to AED 24.0 billion in 2016. The growth in these segments reflects the Group's strategy of reliably supporting its quality customers and at the same time diversifying its sources of business.

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

- The Group was able to raise its record current and saving account (CASA) balances mix to total deposits of 32% with the establishment of Global Transaction Services team in 2016 and ongoing focus to enhance customer experience.
- To support the introduction of VAT, the Group has partnered with Thomson Reuters to provide its customers with a VAT portal for guidance on VAT matters and calculation and is developing its reconciliation solutions to include this new requirement.
- The bank continues to do well in the precious metals and jewellery sector by expanding its expertise in the diamond space. During the year, customers in this segment contributed AED 129.7 million in operating income, depicting a growth of 42.1%, AED 3.0 billion in assets and AED 1.6 billion in deposits.

Net impairment loss for the segment stood at AED 296.9 million compared to AED 267.3 million. The segment's net profit increased by 6.3% to AED 243.0 million, up from AED 228.7 million in 2016

Business Banking Segment

NBF continues to raise its profile as a financial partner for business in the UAE, once again winning "Best Commercial Bank UAE" at the Banker Middle East Awards for six years in a row, further reaffirming its strong client focus and business partnerships cultivated over the years. NBF's business banking segment is closely aligned with a significant part of the UAE's economy. Whilst the bank remains committed to supporting this segment of the UAE economy, it has enhanced controls and underwriting standards to better protect it from the weakness currently seen in the market.

NBF also joined hands with Thomson Reuters as platinum banking partner to offer tailored funding solutions to SMEs in the UAE through the Thomson Reuters Accelerate SME Platform, the only digital gateway to the SME ecosystem in the MENA Region. This is a strategic tie up that will help NBF connect directly with the SME community and facilitate capital for their business growth.

NBF's business banking segment represents 19.2% of the Group's operating income. Operating income saw a growth of 3.4% to AED 264.3 million. The segment's assets totaled AED 3.2 billion in 2017 rising 9.6% from 2016. The segment's liabilities rose to AED 3.1 billion up 7.1% from AED 2.9 billion in 2016, a reflection of the enhanced focus on cash management and improvement in the cross-selling of products. The segment has prudently provided for the impacted portfolio from the credit downturn resulting in credit losses increase by 18.4% to AED 125.7 million in 2017 from AED 106.2 million in 2016. Consequently, its net profit saw a decline of 38.9% to AED 14.0 million.

The bank continues to follow a proactive and transparent approach in recognising and managing problem accounts, whilst it continues to support credit worthy customers. The segment has cash collaterals/ pledged deposits amounting to AED 886.4 million, which represents 28.0% of its credit portfolio.

RETAIL BANKING

The Group's continued focus in the measured expansion of its retail business across the UAE has started bearing fruit; the segment reported a net profit of AED 10.2 million compared to a loss of AED 5.1 million in 2016. The segment achieved double digit operating income growth, reflecting the ongoing success of NBF's diversified business strategy, by 11.8% to AED 112.6 million. Shari'a compliant retail banking products and services have also helped to grow the Group's customer base.

The segment's assets grew by 28.7% to AED 2.4 billion and liabilities went up by 30.1% to AED 2.7 billion in 2017.

An enhanced sales focus aimed at building a stronger business has helped improve service and coverage whilst, managing the impact of the interest spread in a low interest rate environment. The segment's costs increased by 15.6% to AED 83.1 million, reflecting an enhanced focus on sales and expanding branch network, a fine tuning of its operating model and improvements in allocation of costs to its broader segments. The segment reported a significant improvement in its net impairment loss by 43.1% to AED 19.3 million following the application of tighter credit underwriting standards to Retail SME portfolio and its rebalanced focus on priority personal banking segment. The segment will continue to leverage the success of its priority personal banking segment launch and Islamic products and will look to introduce investment propositions for its customers and optimize its expanded branch network.

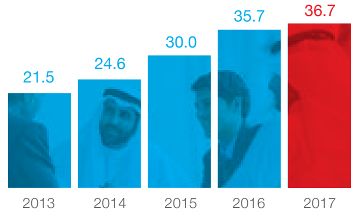
TREASURY, INVESTMENTS AND ASSET, LIABILITY MANAGEMENT (ALM) AND OTHERS

Our award winning treasury business continues to be highly regarded in the market and offers a wide range of products to customers across diverse segments. Treasury has had another successful year, ranked "Best Treasury Management" at the Banker Middle East UAE Product Awards 2017. We have seen a decline in credit growth and trade volumes in the market which had an impact on foreign exchange and derivatives income which was 1.4% down compared to 102.3 million in 2016. Sophisticated derivative transactions undertaken by the bank also highlighted the technical competence of NBF's treasury and its ability to offer a wide range of products in the market to help customers manage their financial risks. The new treasury front end system went live in 2017, broadening the spectrum of products offered, allowing greater efficiency and control to the business teams.

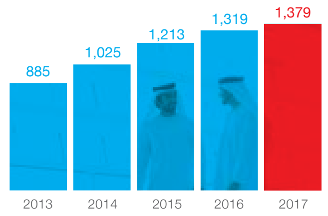
NBF's enhanced focus on asset and liability management during the year also resulted in strong net interest and net income from Islamic financing and investment activities growth of 8.2%. The combined share of the bank's income from Treasury and ALM was maintained at a healthy level of 16.8% compared to 18.3% in 2016. The investments portfolio, principally representing investment grade debt securities, increased by 7.3% to AED 1.9 billion.

NBF'S FIVE YEAR PERFORMANCE SCORECARD

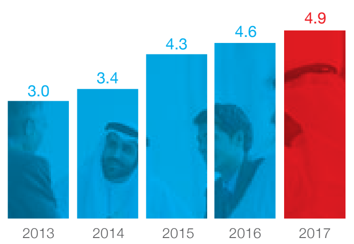
Assets (AED Billion)



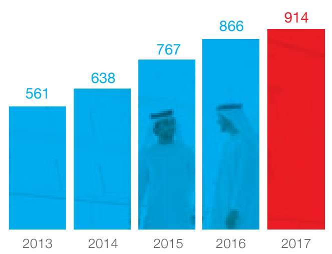
Operating Income (AED Million)



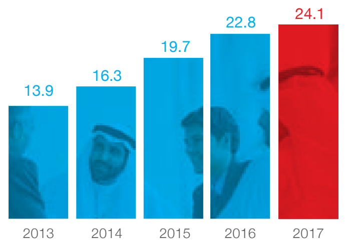
Shareholders' Equity (AED Billion)



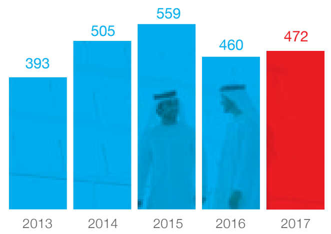
Operating Profit (AED Million)



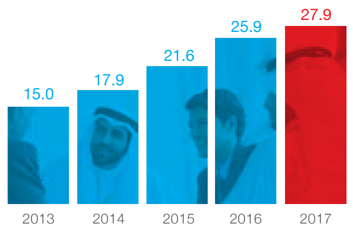
Loans and Advances (AED Billion)



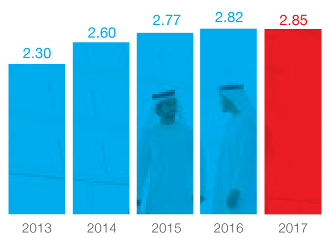
Net Profit (AED Million)



Customer Deposits (AED Billion)



Book Value Per Share (AED)



NBF ISLAMIC

Islamic finance in the UAE has had a strong year of growth; however, compared with the previous years, momentum has slackened in line with the slowing economy. The drop in oil prices and cuts in government spending on new projects have reduced credit growth and while liquidity in the banking sector improved amply during the year, Sukuk issuance lacked the pace to absorb this liquidity.

According to The Global Islamic Economy Report 2016/2017, Malaysia, UAE and Bahrain lead the Islamic Finance Indicator ranking that focuses on health of Islamic Finance ecosystem in a country relative to its size and including its related social considerations.

The focus on promoting Islamic economy in UAE is expected to remain at the forefront of the Government's strategic plans. Early in 2017, the Dubai Islamic Economy Development Center adopted the four year plan covering the period 2017-2021. As part of the plan, the Government will continue to work toward engaging and encouraging the development of Islamic economy in the country.

With this economic and industry background, NBF Islamic has capitalised well on the positive market developments by outperforming the industry average growth. NBF Islamic won the award for "Best Islamic Window UAE" at the Islamic Business and Finance Awards 2017 and also received best "Shari'a compliant Window of the Year" at The Banker's Islamic Bank of the Year Awards 2017. Most recently, NBF concluded its landmark transaction of gold financing under the new shari'a compliant gold standard issued by AAOIFI, the first of its kind in the UAE.

NBF became the first bank with Islamic window to join the Nasdaq Dubai's Islamic financing Murabaha platform since the platform's launch in 2014, which offers unique advantages to financial institutions and clients seeking Shari'a compliant solutions and trading opportunities. These accolades position NBF Islamic as one of the leading providers of comprehensive suite of Shari'a compliant banking solutions.

During this year, NBF Islamic has grown at an impressive pace and in a short span of time has achieved an asset base of AED 3.9 billion up 32.5% from AED 3.0 billion in 2016, and operating income of AED 73.5 million up 23.8% from AED 59.3 million in 2016. Total Islamic financing receivables and Islamic customer deposits reached AED 3.1 billion (2016: AED 1.6 billion) and AED 3.7 billion (2016: AED 2.9 billion) respectively. NBF Islamic represents 10.8% of total asset base of the Group.

The recent introduction of Shari'a compliant gold financing solution has broadened the offerings from NBF Islamic which now covers a comprehensive mix of retail and corporate banking products complying with Shari'a rules based on structures including Murabaha, Wakala, Qard, Tawarruq, Ijara, Istisna' Forward Ijara and Waad. A Shari'a compliant product suite based on Mudaraba are in the process of being launched. These Shari'a based product structures cater to various business offerings in retail, corporate and treasury, making us one of the unique Islamic Banking platforms which offers such diverse range of products and structures.

NBF AND THE COMMUNITY

We take pride in performing our responsibilities towards the communities in which we operate and thrive as an integral part of our business philosophy. Our sustainability and corporate social responsibility (CSR) programme focus on creating long term value for our customers, shareholders, employees, regulators and the communities.

In line with the strategy of the 'Dubai Declaration of financial institutions in the United Arab Emirates on sustainable finance' to improve CSR practices by 2021, the Group has developed a CSR roadmap to cover various elements of the declaration recognising and supporting the UAE's ambition to become one of the best countries in the world by its Golden Jubilee anniversary. To attain a prosperous society for generations to come, we would also support the sustainable development of this country in line with the UAE Green Agenda 2015 – 2030 which includes Green Energy, Green Investment, Green City, Climate Change, Green Life and Green Technologies.

In recognition of the importance of these CSR initiatives, the Group has established the Sustainability Steering Committee comprising key members of senior management team to steer the CSR efforts and provide support and oversight to the Corporate Social Responsibility Committee for improving the NBF's direct and indirect environmental and social performance.

Another noteworthy successful initiative was the NBF's inaugural Fujairah Run which took place on 1 December 2017 under the patronage of His Highness Sheikh Mohammed bin Hamad bin Mohammed Al Sharqi, Crown Prince of Fujairah. The Run was a grand success with over 1,500 participants and spectators from across the UAE and internationally and will be seen as an annual event in the events calendar of the UAE.

A comprehensive inaugural Sustainability and CSR Report highlighting our responsibilities, functions, objectives and key initiatives has been separately published and is available on our website under the corporate governance section.

LOOKING AHEAD

The Group's management takes into consideration the changing operating environment and the imminent changes expected in order to assess the appropriateness of its business strategy and risk management. Notwithstanding the trials ahead, we are confident that by maintaining an unwavering focus on risk management, financial prudence and sustainability, effective execution and transparency, the Group will continue to make worthy progress over the coming years.

We will continue to invest in longer term priorities:

- Customer centricity - Fostering a culture that places the customer at the heart of everything we do, for example, the decision-making process, alignment of objectives, targets, rewards and recognition. Advanced customer analytics and technologies will be used to engage better with customers in understanding their needs. Priority banking and Global transaction services focus will be further augmented. Investment propositions will be introduced for the customers. Business development initiatives include upgrade of NBF Capital licence and fund launch and review of country risk appetite to support customers trade flows, subject to credit due diligence. NBF Islamic success to be leveraged by enhanced commercialisation efforts to improve market share. NBF Elham and Ajyal initiatives will be targeted at establishing active engagement with customers through social media and create meaningful association with high profile local Emirati ladies and young Emirati students.

- Bank-wide digital transformation strategy to excel in the following areas:
  - Automation and collaborative platforms and processes to ensure exceptional turnaround time for customers
  - Customer Analytics and Business Intelligence will become a principal area of focus for providing customer insights and support income generation
  - Establishment of effective Omni channel platform

- Risk and Compliance transformation to enhance governance and control procedures in line with new regulations and evolving technology. Review of corporate governance and compensation structure and policies to prepare for the regulatory changes that are in consultation and in the process of being issued.

- Capital allocations to be carefully managed towards the most attractive and profitable business of the Group over the longer term. Optimising the deployment of capital and investment spend.

Finally I would like to thank all our staff and shareholders for their continues support and contribution towards the success of the bank.

I would also like to thank our customers for their persistent support and partnership through the years and we assure our commitment in fulfilling their business and personal financial needs and emerge further stronger for their future growth.

Easa Saleh Al Gurg, KCVO, CBE
Deputy Chairman
05 February 2018

CORPORATE GOVERNANCE REPORT

Stakeholder engagement and investor relations continue to be the utmost priority for NBF.

The NBF Board and Management are committed to upholding the highest ethical and corporate governance standards in line with industry best practice. This approach underpins a sustainable business and maintains a high level of trust and integrity among the various stakeholders of the bank.

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

The bank's corporate governance structure includes well documented and regularly reviewed governance policies and procedures. The governance structure not only ensures high levels of transparency and accountability, but also provides an appropriate functional independence and control environment to carry out the business activities.

Regulatory Affairs

NBF is a regional financial services provider with its focus on the United Arab Emirates but with a diverse range of activities that drives a diverse set of regulators and regulatory requirements. The bank's shares are listed on the Abu Dhabi Securities Exchange (ADX) and our principal regulator is the Central Bank of the United Arab Emirates. NBF subsidiaries namely, NBF Financial Services FZC, NBF Capital Limited and NBF Markets (Cayman) limited are supervised by regulators in those zones.

Role of the Board of Directors

The Board plays a key role in overseeing the bank's strategy, principal policies, risk appetites, senior appointments and supervision, remuneration of senior executives and all related key approvals.

The bank has clearly defined, in its Corporate Governance Framework Manual, the responsibilities of the Board of Directors, its corporate governance structure and delegated authorities so as to enable the effective and efficient fulfillment of its responsibilities.

In all actions taken by the Board, the Directors ensure compliance with relevant laws, regulations, rules and best banking practices as well as the exercise of responsible business judgment in the best interests of the bank.

Governance Standards

The Board and the bank's management continue to pro-actively review, develop and enhance the corporate governance standards in light of the changes in the bank's strategy and its business, external environment and sound industry practices.

The bank's formal disclosure policy is well established and certain disclosures are included within the Annual Consolidated Financial Statements as notes and can be referred to for further information on the bank's governance and risk management framework as follows:

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

The corporate and governance documents accessible through the bank's website are:

- The Memorandum of Association and Articles of Association
- The Corporate Governance Framework of the Board of Directors
- The Code of Conduct and Whistle Blowing Policy that encourages open communication, compliance, transparency and fair business practices
- The Shari'a Governance Framework (SGF)
- The enhanced disclosures through its investor relations and corporate governance web page

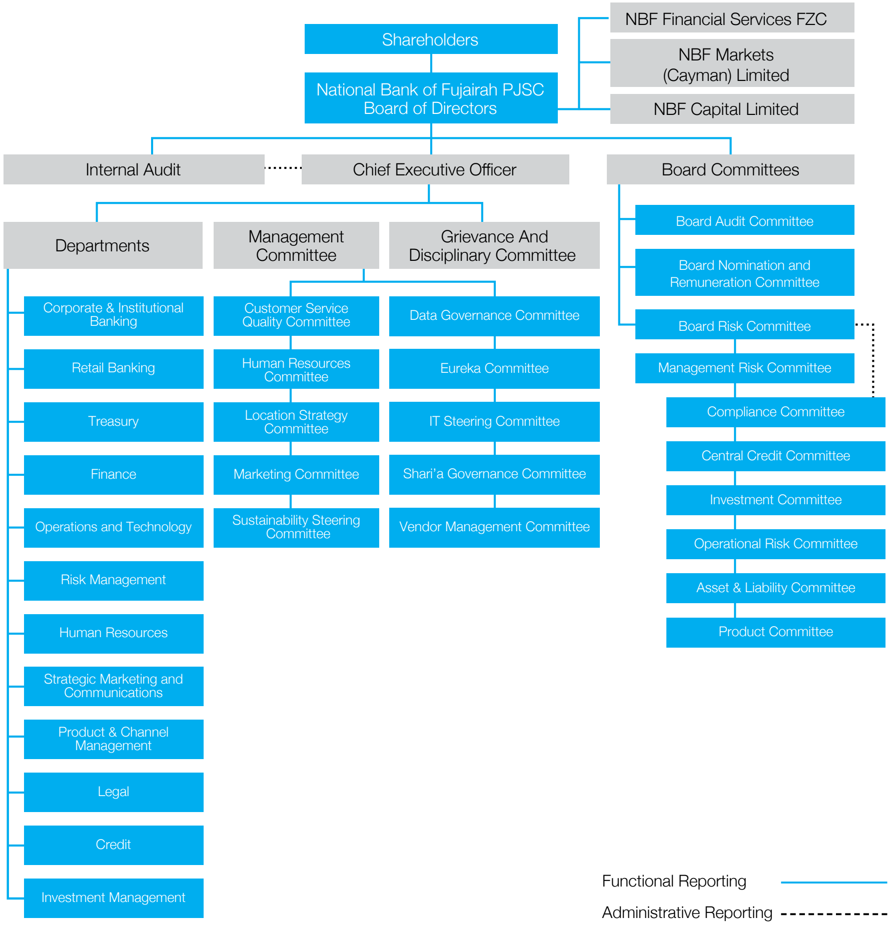
Stakeholder Communication

As part of its on-going efforts to be recognised as a leading institution for maintaining high standards of corporate governance, the bank continues to periodically, and in a timely manner, communicate financial and non-financial information to its shareholders, investors, customers, employees, suppliers, regulators, government and local communities through disclosures on its website (corporate governance/investor relations sections), annual and quarterly financial reports, investor presentations and various press releases.

The bank also strives to continue to keep its staff aware of all new developments including the bank's Vision and Mission, strategy and new initiatives through internal communication channels, staff off-sites and town hall meetings.

ORGANISATION

The diagram below illustrates the high level structure of the bank's governance committees. Management Committee and Management Risk Committee oversee and provide strategic direction to other committees. They also make recommendations to the Board and Board Committees.



ISLAMIC BANKING GOVERNANCE

The bank has in place its Shari'a Governance Framework, Shari'a Supervisory Board and Audit process to ensure the credibility of its Islamic offering, through strict compliance with Shari'a principles, for all the products and services offered through its Islamic window, NBF Islamic. The bank also maintains independent books of accounts for NBF Islamic.

NBF ISLAMIC – SHARI'A GOVERNANCE STRUCTURE

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

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

SHARI'A SUPERVISORY BOARD REPORT

For the Year Ended 31 December 2017

The Shari'a Supervisory Board has approved and supervised contracts and transactions, in accordance with the principles of Islamic Shari'a, entered into by the bank for the year ended 31 December 2017. The Shari'a Supervisory Board has performed its supervision to enable it to express an opinion on the bank's compliance with the provisions and principles of Islamic Shari'a, as well as with fatwas, resolutions and specific guidelines that were issued by it from time to time.

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

The Shari'a Supervisory Board's annual audit and monitoring included inspecting documentation and procedures of the Islamic banking service undertaken by the bank on the basis of sample testing of all types of transactions.

The Shari'a Supervisory Board planned to execute the audit and monitoring procedures to obtain all information and explanations deemed necessary to review sufficient evidence that Islamic banking did not contravene the principles of Islamic Shari'a.

Based on its monitoring and supervision, the Shari'a Supervisory Board declares the following:

a. Contracts and transactions executed, and processes followed by the bank during the year ended 31 December 2017, were conducted in accordance with the principles of Islamic Shari'a.

b. All amounts required to be channeled to charity were duly donated to charity organisations approved by the Shari'a Supervisory Board.

Allah Almighty knows best.

Dated: **05 February 2018**

Approved By: **National Bank of Fujairah Shari'a Supervisory Board**

Dr. Mohamed Ali Elgari (Chairman) ....

Dr. Mohd Daud Bakar (Executive Member) ....

Dr. Muhammad Amin Ali Qattan (Member) ....

Dr. Osama Al-Dereai (Member) ....

SHAREHOLDERS

As at 31 December 2017, NBF's shareholders consist of:

Department of Industry and Economy - Government of Fujairah	40.15%
Easa Saleh Al Gurg LLC	21.66%
Investment Corporation of Dubai	9.78%
Fujairah Investment Company	5.22%
Rest of the United Arab Emirates based shareholders	23.19%

2017: During the year, 3,878,687 shares representing 0.28% of the bank's shares were traded (2016: 39,157 shares representing 0.003% of the bank's shares were traded). The market capitalisation of the bank is AED 6.8 billion (2016: AED 6.1 billion).

THE BOARD OF DIRECTORS

The Board has adopted an annual agenda to ensure that its responsibilities are effectively carried out. The Board has established committees to assist in the efficient discharge of its duties including the Risk Committee, Audit Committee and Nomination and Remuneration Committee to assist the Board in carrying out its responsibilities.

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

Appointment, retirement and re-election

During the year, Mr. Ahmed Saeed Al Raqbani was elected as the ninth Director in the NBF Board of Directors in line with the Federal Law No. 2 of 2015. Appointment of the new board member and amendment of the Memorandum and Articles of Association during the course of the year, ensures that the bank is fully aligned with the latest laws and governance practices for its ongoing success. All Directors are required to seek re-election by shareholders every three years. The Board of Directors was elected on 26 March 2017, for a term of three years, to fulfill their duties and responsibilities.

The Chairman, Deputy Chairman and all Directors are Non-Executive Directors.

All the directors declare their interests and directorships on an annual basis. Their dealings in the bank's securities are also on full disclosure and on arm's length basis.

Details of the Board members' current terms of office and their external positions are:

Board of Directors and their external positions	NBF, "the bank"
His Highness Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi Chairman of Department of Industry & Economy, Government of Fujairah Chairman of Fujairah Port Authority Chairman of Fujairah Petroleum Company Chairman of Fujairah National Group	Chairman
His Excellency Easa Saleh Al Gurg, KCVO, CBE Chairman of Easa Saleh Al Gurg Group Chairman of Al Gurg Fosroc LLC Chairman of Arabian Explosives Company LLC Chairman of Al Gurg Unilever LLC Chairman of Al Gurg Smollan Commercial Investments LLC Chairman of Al Gurg Decorative Paints LLC	Deputy Chairman
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi Vice Chairman of Fujairah National Group Chairman of Al Sharq Health Care (The Health Care Group of Fujairah National Group)	Member
Mr. Hussain Mirza Al Sayegh Deputy Chairman of Oilfields Supply Center Ltd Deputy Chairman of Al Nasr LeisureLand Director of Emirates National Oil Company Director of Emirates National Bank of Dubai (ENBD) Chairman of Jotun UAE Ltd (LLC) Chairman of Jotun Powder Coatings UAE Ltd (LLC) Director of Marsh Insco LLC Director of Mawarid Finance Director of Senses	Member
Dr. Sulaiman Mousa Al Jassim Board Member in Al Fujairah National Insurance Company Chairman of Al Jassim Trading Group Chairman of Al Jassim Marble and Tile Factory Vice chairman of Sultan Alowais Culture Foundation in Dubai Chairman of Alkhaleej Investment Education Services Member of Board of Abu Dhabi University	Member
Mr. Saif Sultan Al Salami Managing Director of Fujairah National Group Board Member of Al Fujairah National Insurance Company Managing Director of Fujairah Investment Company	Member
Mr. Mohamed Obaid Bin Majed Al Aleeli Director General of Department of Industry & Economy, Government of Fujairah	Member
Mr. Abdulla Fareed Al Gurg Group General Manager, Easa Saleh Al Gurg Group Director of Al Gurg Fosroc LLC Director of Al Gurg Smollan Commercial Investments LLC Director of Al Gurg Decorative Paints LLC Director of Easa Saleh Al Gurg Charity Foundation	Member
Mr. Ahmed Saeed Al Raqbani Chairman of Fujairah Building Industries Member of Board - Al Taif Investment Member of the Board of Trustees - University of Fujairah Managing Director of East Coast Group	Member

Directors' interests in the bank's shares:

Name (Board of Directors)	Shareholding at 1 January 2017	Shareholding at 31 December 2017	Change
Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	-	-	-
Easa Saleh Al Gurg, KCVO, CBE	-	-	-
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	-	-	-
Hussain Mirza Al Sayegh	-	-	-
Sulaiman Mousa Al Jassim	1,214,441	1,305,524	7.5%
Saif Sultan Al Salami	-	-	-
Mohamed Obaid Bin Majed Al Aleeli	309,527	332,741	7.5%
Abdulla Fareed Al Gurg	-	-	-
Ahmed Saeed Al Raqbani	-	-	-

BOARD COMMITTEES

The Board of Directors has an 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 policies and guidelines to manage credit, liquidity, market, operational and compliance risks. The Board has established the Board Committees to enhance the oversight mechanism in order to perform its responsibilities effectively. Each Committee has a formal Charter approved by the Board of Directors.

Risk Committee of the Board consists of four Board members and an independent professional member to assist the Board in fulfilling its responsibilities in respect of the risks inherent in the businesses of the Group and the control processes with respect to such risks, the risk profile of the Group, and the risk management, compliance and control activities of the Group. The CEO, Chief Risk Officer (CRO) and Chief Financial Officer (CFO) are invitees. The responsibilities of the Committee include, but are not limited to the following:

- Review the Group's Enterprise Risk Management and Internal Control Framework;
- Review risk appetite of the Group and establish risk policies for implementation;
- Review credit risk rating system;
- Review policies for Asset and Liability management;
- Review financial and other risk exposures and the steps management has taken to identify, measure, monitor, control and report such exposures including and without limitation review of credit, market, fiduciary, liquidity, reputation, insurance, operational (including fraud, business continuity, information security and legal) and strategic risks;
- Review appropriate transaction or trading limits;
- Review reports and significant findings from the Risk Management Division, Risk Committee of the Management and from the regulatory agencies relating to risk issues and management response;
- Review Internal Capital Adequacy Assessment Process (ICAAP) submission to the Central Bank of the UAE;
- Review quality, structure and adequacy of capital and economic capital allocation methodology;
- Review Basel III, liquidity and leverage review methodology;
- Monitor the Group's compliance with legal and regulatory obligations; and
- Review major disclosure documentation prior to the issue to the market.

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

- Confirming and assuring the independence of the Internal Auditors;
- Review with the Head of Internal Audit and the External Auditor of the scope, plan, coordination and effectiveness of internal and external audit efforts;
- Oversight of the preparation of the financial statements including a review of the interim and year end accounts to monitor that such accounts have been prepared in accordance with proper accounting principles and recommending them for adoption by the Board;
- Review of the Group's Internal Control Systems for effectiveness; and
- Review of all Internal Audit reports concerning any investigation or significant fraud that occurs at the Group.

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

- Making recommendations to the Board concerning 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 as deemed required, other senior Management positions in the Group;
- Review of the remuneration policy for the Board and the CEO position and determination of their terms of service. The CEO and the full Board will determine and review the Group's Human Resources policy and remuneration levels for the Group;
- Review of the structure, size and composition required of the Board and make recommendations to the Board with regard to any changes;
- Evaluation of the skills, knowledge and experience of the Board; and
- Review of the performance of the Board, and working with the members of the Board to develop recommendations to the Board for any performance adjustments deemed advisable.

In 2017, the Board of Directors met regularly and received information about the activities of the Board Committees, Governance and Risk Committees, and developments in the bank's business.

The members and chairman of the Board's Committees are reviewed on a regular basis to ensure suitability and compliance with requirements. The following table 'Board and Board Committees' membership and meetings' provides details of membership and meetings of the Board and Board Committees held in 2017.

Board and Board Committees' membership and meetings:

Name	Expiration of current term of office	Board	Board Risk Committee	Board Audit Committee	Board Nomination & Remuneration Committee
Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	2020	C			C
Easa Saleh Al Gurg, KCVO, CBE	2020	DC		C	M
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	2020	M	M	M	
Hussain Mirza Al Sayegh	2020	M		M	
Sulaiman Mousa Al Jassim	2020	M		M	
Saif Sultan Al Salami	2020	M	C	M	M
Mohamed Obaid Bin Majed Al Aleeli	2020	M	M	M	
Abdulla Fareed Al Gurg	2020	M	M	M	
Ahmed Saeed Al Raqbani	2020	M	M	M	
Sekhar T N	July 2018		*	*	
Vince Cook	CEO	I	I	I	
Adnan Anwar	CFO	I	I	I	
Balaji Krishnamurthy	COO	I		I	
Justin Morgan-Cooper	CRO		I		
Kevin Taylor	HOIA			I	
Total no. of meetings		6	4	4	4
Approvals by circulation		2	-	-	-

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

All principal members of the management team present their businesses' performance, risk and strategy to the full Board at least once in a year.

The Board approves credit and investment proposal above defined thresholds. During 2017, there were 134 credit applications forwarded to the Board for approval.

BOARD OF DIRECTORS – REMUNERATION AND INTERESTS IN THE BANK'S SHARES

The remuneration of the Board members is a fixed amount for the year and paid annually in line with the approval of the General Assembly Meeting. For 2017, the fee was AED 3 million, which was charged to the statement of income, and is 0.64% of net profit attributed to shareholders of the bank.

Board member remuneration paid during 2017 for year 2016	Directors' fees (AED per annum)
Chairman	500,000
Deputy Chairman	500,000
Director and Board Secretary	250,000 (Per Person)

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

In order to discharge its responsibilities effectively, the Board has established a range of management committees. These committees oversee and direct the implementation of the day-to-day activities of the Group in line with the guidelines set by the Board. These committees comprise key officers, who convene regularly for the effective and efficient performance of their responsibilities. The Group's policies and procedures are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits, and to ensure effective escalation and reporting. Risk management policies and systems are reviewed regularly to reflect changes according to market conditions, products and services offered.

The Management Committee (MANCOM), steered by the CEO, is responsible for the development and monitoring of execution plan of the Group's strategy approved by the Board, implementation of corporate governance, performance measurement and monitoring, deciding on staff related matters, policies and any other administrative matters other than risk matters. MANCOM has further established Marketing Committee (MC), Human Resources Committee (HRC), IT Steering Committee (ITSC), Sustainability Steering Committee (SSC), Data Governance Committee (DGC), Customer Service Quality Committee (SQC), Shari'a Governance Committee (SGC), Location Strategy Committee (LSC), Eureka Committee (EC) and Vendor Management Committee (VMC) as sub-committees to assist it to carry out its responsibilities effectively.

The Management Risk Committee (MRC), chaired by the CEO, is responsible to develop and recommend to the Board through the Risk Committee of the Board, the Group's risk appetite, develop and review the Group's risk policies and ICAAP, recommend allocations of regulatory and economic capital to portfolio segments and business lines, approve scenarios for stress testing for all risk categories and evaluate potential changes to market conditions. Moreover, the Committee reviews significant financial or other risks and the steps management has taken to monitor, control and report such risks, including, but without limitation to, review of credit, market, fiduciary, liquidity, reputation, operational, compliance, legal, fraud and strategic risks. It obtains assurance that significant risks are being measured, monitored, evaluated, and appropriately escalated through periodic updates, risk reporting, and key risk indicator reviews from ALCO, CCC, CC, ORC, IC and PC.

The Asset and Liability Committee (ALCO), chaired by the CFO, is responsible for directing asset and liability growth and allocations in order to achieve the Group's strategic goals. It monitors the Group's liquidity and market risks and the Group's risk profile in the context of economic developments and market fluctuations, to ensure that the Group's ongoing activities are compatible with the risk appetite approved by the Board. The Committee is also responsible for developing and establishing ALCO metrics and MIS for review, measurement, monitoring and control of all market and liquidity risks and stress testing.

The Central Credit Committee (CCC), chaired by the Head of Credit, is responsible for credit decisions for the Group's lending portfolio, setting country and other high level Group risk limits, oversee portfolio reviews with particular focus on quality, dealing with impaired assets and grading of credit facilities. The Committee is also responsible for developing and establishing credit risk metrics and MIS for review, measurement, monitoring and control of all credit risks, stress testing for review of credit risk policies, enhancement of credit risk reporting and processing.

Compliance Committee (CC), chaired by the CRO, is responsible to develop and advise the Board Risk Committee through the Management Risk Committee on the bank's compliance risk exposure. The Committee is responsible for reviewing and ensuring the best industry practices in compliance risk management in line with the requirements of Bank for International Settlement, Financial Action Task Force and the UAE Banking Federation and other local and global regulators.

The Operational Risk Committee (ORC), chaired by the Head of Operational Risk and Internal Control, is responsible for independently assessing and monitoring the operational risks of the Group against the Group's operational risk management policies, internal control framework and operational risk appetite as approved by the Board. It is responsible to review operational procedures, adequacy of the internal control systems, and to develop and establish operational risk metrics and MIS for review, measurement and monitoring of operational risks. Further, it is also responsible for the implementation of the Business Continuity Plan (BCP) and Disaster Recovery Programme (DR), The Committee also reviews reports from internal, external and Central Bank audits and monitors progress on actions initiated to address all operational risks covered by these reports.

The Product Committee (PC), chaired by the CRO, is responsible to review and approve all risks, designs, pricing, financials, product risk ratings, distribution processes, product control and MIS processes of proposed new products and services and material changes to existing products and services. It ensures that the products and services fall within the risk appetite and the Group's strategic plans. It is responsible for monitoring the Group's competitiveness in product positioning and developments in technology that could have an impact on risk profile and profitability of products and services.

The Investment Committee (IC), chaired by the CEO, is responsible to independently manage the bank's proprietary investments, in a diversified portfolio of marketable securities across various asset classes, geographies and industries. It reviews and approves the investment strategy, strategic asset allocation and investment proposals in line with the objectives set by the bank's Management Risk Committee and approved by the Board Risk Committee and the Board. It also reviews and approves the client investment proposition framework, proposed asset allocation mix and the selection and termination of external fund managers and any external investment consultants and advisors.

The Marketing Committee (MC), chaired by the CEO, is responsible for challenging marketing strategies or plans proposed by the Business Segments and recommend changes to improve marketing and sales activities. It coordinates and monitors the support and resources required, new product and channels development and pricing strategies. It oversees plans for developing business with the Group's key customers and monitors progress together with setting customer service standards.

The Human Resources Committee (HRC), chaired by the CEO, is responsible for ensuring internal equity of compensation and overall evaluation of jobs. It is responsible for grade and compensation structure together with benchmarking in line with the market conditions. In order to achieve its objectives, the Committee reviews the organisation design and proposals to improve the rewards and benefits structure and discusses future human resources planning, policies and procedure guidelines.

The IT Steering Committee (ITSC), chaired by the CEO, is responsible to provide direction to the Group's key technology initiatives and assist in the alignment of IT spend with business needs. It is responsible for providing oversight on IT projects and direction on technology dependent projects including prioritisation and resource alignment.

The Sustainability Steering Committee (SSC), chaired by the Chief Risk Officer, is responsible for identifying, managing and improving the bank's direct and indirect environmental and social performance, hand in hand with the Corporate Social Responsibility Committee (CSR). It has the responsibility of contributing towards community and society in creating economic, environmental and social opportunities, lend to, invest in facilitate financing or provide insurance to sustainable projects, consider climate and environmental, social and governance risk in the bank's risk management processes and advise CSR on strategies and initiatives to expand and accelerate sustainable finance practices towards 2021 in line with the Dubai Declaration.

The Corporate Social Responsibility Committee (CSRC), chaired by the Manager - Internal Audit, is responsible for the oversight of specific environmental management, community initiatives and communication of CSR initiatives within and outside the Group.

The Grievance and Disciplinary Committee (GDC), chaired by Head of Human Resources, is empowered by the bank's CEO and MANCOM to act independently when dealing with staff grievances and disciplinary cases in accordance with Group rules, policies and UAE laws.

The Data Governance Committee (DGC), chaired by the CFO, is responsible for the data management with respect to organisational goals and regulatory requirements. It has the responsibility for defining the structure, roles and governance framework relating to the bank's data. It drives decisions about data policies and processes, data ownership, data classification and data retention.

The Customer Service Quality Committee (CSQC), chaired by the Head of Corporate and Institutional Banking, drives excellence in service quality across the bank with the objective of achieving customer satisfaction and loyalty. It is responsible for defining clear customer service goals and deliverables and for establishing processes to gather and analyse feedback, identify service gaps and initiate process improvements. It undertakes benchmarking with industry to assess service standards and drives quality training and standard certifications for internal units.

Shari'a Governance Committee (SGC), chaired by the CEO, is responsible to independently assess and manage Shari'a compliance risk of the bank's Islamic products against Shari'a Governance Framework (SGF). The SGC fulfills the duty of ensuring the operational execution of the SGF by NBF Islamic. The SGC is ultimately accountable for the establishment and overall governance of the SGF.

EXTERNAL AUDITORS

PricewaterhouseCoopers (Pwc) was appointed as external auditors for the bank and its subsidiaries by the shareholders at the Annual General Assembly Meeting (AGAM) held on 26 March 2017. The fee for external audit of the bank and its subsidiaries for the year ended 31 December 2017 was AED 560,711 (plus out-of-pocket expenses).

In addition, the engagement fee for other services rendered amounted to AED 367,300. All non-audit work is pre-approved by the Board.

PricewaterhouseCoopers,
Emaar Square, Building 4, Level 8
P.O. Box 11987, Dubai , United Arab Emirates
Telephone: 04 - 3043100
Facsimile: 04 – 3304100

Investor Relations & External Communications

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

Finance Department

Telephone: +971 9 2029210
Facsimile: +971 9 2029403
Email: NBF-investorrelations@nbf.ae
Website: www.nbf.ae or refer to the investor relations section for further details.

Strategic Marketing and Communications Department

Telephone: +971 4 3971700
Facsimile: +971 4 3975385

INDEPENDENT AUDITOR'S REPORT

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Bank of Fujairah PJSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

OUR AUDIT APPROACH

Overview

Key Audit Matter • Impairment of credit facilities

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

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

Key Audit Matters

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

Key Audit Matter

Impairment of credit facilities

(refer to note 10 of the consolidated financial statements)

Impairment allowances represent management's best estimate of the losses incurred within the credit portfolios at the balance sheet date. They are calculated on a collective basis for portfolios of performing loans of a similar nature and on an individual basis for non-performing loans. The calculation of both collective and individual impairment allowances is inherently judgemental.

The calculation of collective provision is based on statistical models which approximate the impact of current economic and credit conditions on portfolios of similar loans. The inputs to these models are subject to management judgement.

For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan.

We focused on this area because management make subjective judgements over both timing of recognition of impairment and the estimation of the size of any impairment.

We focused our audit specifically relating to:

- the key assumptions and judgments made by the management that underlie the calculation of modelled impairment. Key assumptions include the probability of default and the loss given default; and
- the completeness of the customer accounts that are included in the impairment calculation, including how unidentified impairment (customers that have had a loss event that has not yet manifested itself in a missed payment or other indicator) and forbearance are taken account of.

How our audit addressed the Key Audit Matter

We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of which credit facilities were impaired, the data transfer from source systems to impairment models and model output to the general ledger, and the calculation of collective and specific impairment provisions.

In addition, we performed detailed testing on the models used to calculate both identified and unidentified impairment. This testing typically included testing of the extraction of data used in the model, assessing the appropriateness of the assumptions used in the models and re-performance of the impairment calculation.

Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans.

We also tested a sample of credit facilities to ascertain whether the loss event (the point at which impairment is recognised) had been identified in a timely manner. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, challenging the assumptions and comparing estimates including collateral valuations, to external evidence, where available.

We examined a sample of credit facilities which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including the use of external evidence in respect of the relevant counterparties.

Other Information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, related safeguards.

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

Report on other legal and regulatory requirements

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

i. we have obtained all the information we considered necessary for the purposes of our audit;

ii. the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii. the Group has maintained proper books of account;

iv. the financial information included in the Strategic report and Directors' report, is consistent with the books of account of the Group;

v. note 9 to the consolidated financial statements discloses the shares purchased by the Bank during the year;

vi. note 27 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii. note 25 to the consolidated financial statements discloses the social contributions made during the year; and

viii. based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2017.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
05 February 2018

Jacques E Fakhoury
Registered Auditor Number 379
Place: Dubai, United Arab Emirates

GROUP FINANCIAL STATEMENTS

The bank takes pride in its ability to consistently deliver value to its shareholders, and this year is no exception.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 AED'000	2016 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	6,916,739	6,780,092
Due from banks and financial institutions	8	1,940,018	2,142,690
Investments and Islamic instruments	9	1,916,322	1,786,279
Loans and advances and Islamic financing receivables	10	24,065,827	22,818,496
Property and equipment and capital work-in-progress	12	164,533	151,795
Other assets	13	1,652,937	1,988,767
Total assets		**36,656,376**	**35,668,119**
Liabilities			
Due to banks	14	627,515	1,110,041
Customer deposits and Islamic customer deposits	15	27,864,997	25,938,491
Term borrowings	14	1,410,075	1,906,649
Other liabilities	16	1,863,151	2,133,882
Total liabilities		**31,765,738**	**31,089,063**
Shareholders' equity			
Share capital	17	1,366,527	1,271,188
Statutory reserve	17	549,992	503,223
Special reserve	17	444,992	398,223
Available-for-sale revaluation reserve		(4,089)	(9,536)
Proposed cash dividends	17	102,489	95,339
Proposed bonus issue	17	102,489	95,339
Retained earnings		1,328,238	1,225,280
Tier 1 capital notes	18	1,000,000	1,000,000
Total shareholders' equity		**4,890,638**	**4,579,056**
Total liabilities and shareholders' equity		**36,656,376**	**35,668,119**

These consolidated financial statements were approved and authorised by the Board of Directors on 5 February 2018 and are signed on its behalf by:

Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman

Easa Saleh Al Gurg, KCVO, CBE
Deputy Chairman

The notes on pages 45 to 87 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 33 to 38.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Note	2017 AED'000	2016 AED'000
Interest income and income from Islamic financing and investment activities	19	1,452,582	1,275,819
Interest expense and distribution to Islamic depositors	20	(535,022)	(427,618)
Net interest income and net income from Islamic financing and investment activities		**917,560**	**848,201**
Net fees and commission income	21	311,460	311,000
Foreign exchange and derivatives income		100,811	102,289
Income from investments and Islamic instruments	22	19,322	11,131
Other operating income	23	29,388	46,486
Operating income		**1,378,541**	**1,319,107**
Operating expenses			
Employee benefits expense	24	(309,429)	(309,598)
Depreciation and amortization	12	(25,628)	(22,675)
Other operating expenses		(129,873)	(120,869)
Total operating expenses		**(464,930)**	**(453,142)**
Operating profit		**913,611**	**865,965**
Net impairment losses	10	(441,668)	(405,522)
Profit for the year		**471,943**	**460,443**
Earnings per share (basic and diluted)	26	**AED 0.29**	**AED 0.29**

Appropriations have been reflected in consolidated statement of changes in equity.
The notes on pages 45 to 87 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 33 to 38.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 AED'000	2016 AED'000
Profit for the year	**471,943**	**460,443**
Other comprehensive income:		
Items that are or may be re-classified subsequently to the statement of income		
Changes in available-for-sale investments:		
Net fair value gains on disposal of available-for-sale investments	(19,532)	(11,570)
Net changes in fair value of available-for-sale investments	24,979	9,817
Net change in available-for-sale-investments	**5,447**	**(1,753)**
Total comprehensive income for the year	**477,390**	**458,690**

The notes on pages 45 to 87 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 33 to 38.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 AED'000	2016 AED'000
Operating activities			
Profit for the year		**471,943**	**460,443**
Adjustments for :			
Depreciation and amortization	12	25,628	22,675
Provision for employee end of service and other long term benefits	16.1	13,514	13,071
Gain on disposal of property and equipment		(7)	(6)
Net impairment losses	10.3	441,668	405,522
Net fair value gains on disposal of investments and Islamic instruments		(19,552)	(11,570)
Net changes in fair value of investments at fair value through profit or loss		230	439
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		**933,424**	**890,574**
Payment of employee end of service and other long term benefits	16.1	(11,418)	(9,341)
Change in statutory reserve with the UAE Central Bank		(157,818)	(103,281)
Change in due from banks and financial institutions		(46,699)	276,150
Change in loans and advances and Islamic financing receivables		(1,688,999)	(3,535,682)
Change in other assets		335,830	(620,946)
Change in due to banks		(277,471)	142,840
Change in customer deposits and Islamic customer deposits		1,926,506	4,325,957
Change in other liabilities		(272,827)	618,129
Net cash generated from operating activities		**740,528**	**1,984,400**
Investing activities			
Purchase of property and equipment and capital work-in-progress		(38,366)	(32,003)
Gain on disposal of property and equipment		7	6
Purchase of investments and Islamic instruments		(1,965,014)	(1,514,768)
Proceeds from sale of investments and Islamic instruments		1,859,740	1,145,035
Net cash used in investing activities		**(143,633)**	**(401,730)**
Financing activities			
Proceeds from term borrowings		404,030	1,047,524
Repayment of term borrowings		(900,604)	(896,605)
Cash dividends		(95,339)	(88,688)
Tier 1 capital notes coupon paid		(70,469)	(70,563)
Net cash used in financing activities		**(662,382)**	**(8,332)**
Net change in cash and cash equivalents		**(65,487)**	**1,574,338**
Cash and cash equivalents at beginning of the year		5,915,326	4,340,988
Cash and cash equivalents at end of the year	28	**5,849,839**	**5,915,326**

The notes on pages 45 to 87 form an integral part of these consolidated financial statements.
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	Available-for-sale revaluation reserve AED'000	Proposed dividends AED'000	Retained earnings AED'000	Tier 1 capital notes AED'000	Total AED'000
At 1 January 2016	**1,182,500**	**457,320**	**352,320**	**(7,783)**	**177,376**	**1,117,884**	**1,000,000**	**4,279,617**
Total comprehensive income for the year	-	-	-	(1,753)	-	460,443	-	458,690
Tier 1 capital notes coupon (note 18)	-	-	-	-	-	(70,563)	-	(70,563)
Proposed cash dividends	-	-	-	-	95,339	(95,339)	-	-
Proposed bonus issue	-	-	-	-	95,339	(95,339)	-	-
Transfer to reserves	-	45,903	45,903	-	-	(91,806)	-	-
2015 cash dividends paid	-	-	-	-	(88,688)	-	-	(88,688)
2015 bonus shares issued	88,688	-	-	-	(88,688)	-	-	-
At 31 December 2016	**1,271,188**	**503,223**	**398,223**	**(9,536)**	**190,678**	**1,225,280**	**1,000,000**	**4,579,056**
At 1 January 2017	**1,271,188**	**503,223**	**398,223**	**(9,536)**	**190,678**	**1,225,280**	**1,000,000**	**4,579,056**
Total comprehensive income for the year	-	-	-	5,447	-	471,943	-	477,390
Tier 1 capital notes coupon paid (note 18)	-	-	-	-	-	(70,469)	-	(70,469)
Proposed cash dividends	-	-	-	-	102,489	(102,489)	-	-
Proposed bonus issue	-	-	-	-	102,489	(102,489)	-	-
Transfer to reserves	-	46,769	46,769	-	-	(93,538)	-	-
2016 cash dividends paid	-	-	-	-	(95,339)	-	-	(95,339)
2016 bonus shares issued	95,339	-	-	-	(95,339)	-	-	-
At 31 December 2017	**1,366,527**	**549,992**	**444,992**	**(4,089)**	**204,978**	**1,328,238**	**1,000,000**	**4,890,638**

The notes on pages 45 to 87 form an integral part of these consolidated financial statements.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. Legal status and activities

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

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

The Bank has three fully owned subsidiary companies:

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

NBF Trade Services (HKG) Limited is in the process of being liquidated and will be voluntarily wound up pursuant to the articles of association of the Company and in accordance with the requisite approvals / regulatory requirements. The Company was governed and regulated under the Hong Kong Companies Ordinance established on 10 May 2013. The principal activity of the Company was the provision of trade processing services.

The consolidated financial statements for the year ended 31 December 2017 comprise the Bank and its subsidiaries (together referred to as 'the Group').

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

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

2. Disclosure policy

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

Frequency and medium of disclosure

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

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

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

3. Basis of preparation

Statement of compliance

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

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

4. Significant accounting policies

a. Standards, amendments and interpretations

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2017

New standards and significant amendments to standards applicable to the Group	Effective date
Amendments to IAS 7, 'Statement of cash flows on disclosure initiative' These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities including those from cash flows and other non-cash changes. The new requirement typically entails a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.	1 January 2017

There is no material impact of the above amendments on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2017 that have had a material impact on the Group's consolidated financial statements.

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017 and not early adopted

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. **Amendment to IFRS 15, 'Revenue from contracts with customers'** These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.	1 January 2018

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017 and not early adopted

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 16, 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	1 January 2019

The Group has adhered to the aforementioned new standards and amendments to published standards or IFRIC interpretations issued but not yet effective as relevant for the Group's financial year beginning on 1 January 2017.

IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018

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

The Group is prepared for adherence to the requirements of IFRS 9 as at 1 January 2018 and has completed the measurement and classification of its financial assets and liabilities in accordance with business model as stipulated by IFRS 9. These classifications comprise FVOCI, FVTPL and amortised cost. The majority of financial assets and liabilities are classified as amortised cost in accordance with the Bank's business model except for certain investments which are to be classified as FVOCI and FVTPL instruments. The impact in equity on account of change in classification in accordance with IFRS 9 amounted to **AED 5.8 million**.

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

The Group has elected not to re-state comparative periods and the difference between the previous carrying amounts and the new carrying amounts at the date of initial application (i.e. effective date of 1 January 2018) will be recorded in retained earnings at 1 January 2018.

The Group has also reviewed and completed its assessment of the impairment provision and methodology in accordance with IFRS 9 requirements. Retained earnings at 1 January 2018 will be reduced by **AED 182.7 million** to recognize the incremental impairment provision under IFRS 9.

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

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments in 2018.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2017 that would be expected to have a material impact on the consolidated financial statements of the Group.

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:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Available-for-sale financial assets are measured at fair value.

c. Functional and presentation currency

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

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

d. Basis of consolidation

Subsidiaries

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

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

e. Financial instruments

Classification

A financial instrument is any contract that gives rise to a financial asset / liability for the Group and a financial asset / liability or equity instrument of another party. All assets and liabilities in the consolidated statement of financial position are financial instruments, except property and equipment, capital work-in-progress, prepayments, advance receipts, provision of employee end of service benefits and shareholders' equity.

Financial assets are categorized as follows:

Financial assets at fair value through profit or loss (FVTPL): This category has two sub-categories: financial assets held-for-trading, and those designated to be fair valued through profit or loss at inception. The Group has designated financial assets at fair value through profit or loss when the assets are managed, evaluated and reported internally on a fair value basis. Derivatives are categorized as held for trading unless they are designated as hedges.

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market.

Held-to-maturity (HTM) assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, where the Group has the positive intent and ability to hold to maturity. Where the Group sells other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale.

Available-for-sale (AFS) assets are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Initial recognition

Regular purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial instruments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of income. Loans and advances are recognized when cash is advanced to the borrowers.

De-recognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. A financial liability is derecognized when it is extinguished.

Measurement

Subsequent to initial recognition, all financial instruments to be fair valued through profit or loss and available-for-sale assets are measured at fair value.

All held-to-maturity financial instruments and loans and advances for which the fair value has not been hedged are measured at amortised cost less impairment losses.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

Fair value measurement principles

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

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

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

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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

Fair value hierarchy

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

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

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

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated statement of income in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the consolidated statement of income. In case where the available-for-sale investments with fixed maturity are reclassified to held-to-maturity investments, the fair value gain or loss till the date of the reclassification is held in equity and is amortised to the consolidated statement of income over the remaining life of the held-to-maturity investments using the effective interest rate method.

Impairment

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. Impairment loss is the difference between the net carrying value of an asset and its recoverable amount. Any such impairment loss is recognised in the consolidated statement of income. The recoverable amount of loans and advances is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term (up to one year maturity) balances are not discounted.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated statement of income.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in consolidated statement of income, and is removed from the consolidated statement of other comprehensive income and recognised in the consolidated statement of income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed, with the amount of the reversal recognized in the consolidated statement of income.

However, impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income and subsequent increase in fair value is recognized in fair value reserve.

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 (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

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

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

Derivatives that do not qualify for hedge accounting

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

g. Key accounting estimates and judgments

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

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

Impairment losses on loans and receivables and held-to-maturity and available-for-sale investments

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counter party's financial situation and the net realisable value of any underlying collateral.

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function. Judgment is also exercised while reviewing factors indicating and determining the objective evidence of impairment in respect of loans and advances and held-to-maturity and available-for-sale investments.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that the portfolio contains impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot be identified. In assessing the need for collective impairment allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors.

Available for sale investments

The Group exercises judgment to consider impairment on the available-for-sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgment, the Group evaluates among other factors, the normal volatility in market price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

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.

i. Property and equipment, capital work-in-progress and depreciation

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

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

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

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

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

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

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

j. Government grants

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

k. Due to banks, term borrowings and customer deposits

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

l. Provisions

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

m. Guarantees

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

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

n. Employee end of services benefits

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

o. Interest income and expense

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

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

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

p. Net fees and commission income

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

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

q. Income from investments and Islamic instruments

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

r. Dividend income

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

s. Cash and cash equivalents

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

t. Foreign currencies

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

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

u. Segment reporting

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

v. Offsetting

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

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

w. Earnings per share

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

x. Impairment of non-financial assets

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

y. Operating leases

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

z. Acceptances

Acceptances have been considered within the scope of IAS 39 - Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

aa. Islamic financing receivables, Islamic instruments and Islamic customer deposits

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

Murabaha

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

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

Ijara

Ijara involves a contract where the Group buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Group acquires the beneficial ownership of the property to lease the usufruct to the customer.

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

Qard

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

Sukuk

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

Wa'ad – Structured Shari'a hedging product

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

Wakala

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

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

Istisna' forward ijara

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

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

5. Financial Risk Management

a. Introduction

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

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

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

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

The Bank follows both the Internal Rating Based (IRB) Approach and Standardized Approach for its risk and capital management. In addition, the Bank is also exposed to other risks that are managed along with the key risks, and are quantified, monitored and reported as part of the NBF's Internal Capital Adequacy Assessment Process (ICAAP) Framework. Such risks include, among others, concentration risk, strategic risk, business risk, and legal and compliance risk. The ICAAP covers these approaches and a detailed report is submitted to the UAE Central Bank on an annual basis after being approved by the Board.

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

b. Governance and risk management framework

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

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

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

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

The Group defines Risk Appetite as the degree of risk that it is prepared to accept in pursuit of its strategic objectives and strategic plan, giving considerations to the Bank's various stakeholders, including depositors, shareholders and other relevant parties. The Risk Appetite Statement (RAS) intends to document the Group's willingness to undertake risk to achieve its strategic plan objectives. The RAS is a Board approved articulation of the aggregate level and types of risk that the Group will accept or avoid in order to achieve its business objective. For each material risk, the Board has defined the maximum level of risk that the Bank is willing to operate within.

The Board sets the risk appetite, policies and has approved the Enterprise-wide Risk Management and Internal Control Framework. The Bank follows a three lines of defense structure with management control being the first, independent risk management oversight being the second and an independent audit assurance being the third. The principal responsibility for the execution and implementation of policies and procedures and internal controls rests with respective functions and departments in accordance with the approved framework. An independent Risk Management function carries out the oversight through independent review and approval of procedures, spot checks to assess adequacy of internal controls and meeting of compliance requirements, operational risk management, credit portfolio risk review and middle office activities for market and liquidity risks.

An independent internal and external audit process provides an independent assurance to the Board.

During 2017, the Bank continued to invest in various regulatory compliance activities. As a result, the Bank established an operationally independent Compliance function that oversees Regulatory Compliance and Financial Crime matters.

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

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

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, and arises principally from the Group's loans and advances and Islamic financing receivables to customers and amounts due from banks and investments portfolio.

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

Management of credit risk

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

- Origination
- Evaluation and approval
- Administration
- Monitoring and portfolio management.

The CRMF includes elements of:

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

Credit limits for individual clients and counterparties are established with direct knowledge of the client's creditworthiness as per the Bank's Credit Policy. An independent Credit Department is responsible for reviewing, recommending and approving underwriting proposals. The Credit Monitoring Unit assists the Business Units and Credit Department by monitoring excesses and breaches to conditions and covenants.

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

Concentration risk

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

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

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

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

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

Sector analysis

An analysis of sector concentrations of credit risk arising from loans and advances and Islamic financing receivables as at 31 December 2017 and 2016 is shown below:

Loans and advances and Islamic financing receivables

2017	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not Impaired: Up to 89 days AED'000	Past due but not Impaired: 90 days & above AED'000
Trade	11,791,603	2,238,610	14,030,213	462,568	381,353	147,701	147,963	44,016
Construction	1,311,727	3,428,810	4,740,537	63,986	47,515	1,916	45,825	-
Government	294,959	7,949	302,908	-	-	-	-	-
Manufacturing	3,850,307	759,397	4,609,704	469,886	154,070	83,901	83,677	24,074
Financial institutions	514,081	184,726	698,807	64,941	43,486	-	-	-
Service industries	2,784,471	312,232	3,096,703	230,456	124,494	147,151	10,539	550
Real estate	3,383,357	-	3,383,357	39,629	7,693	-	7,279	-
Individuals	1,389,524	845,558	2,235,082	69,918	54,240	11,698	1,095	-
Gross amount	**25,320,029**	**7,777,282**	**33,097,311**	**1,401,384**	**812,851**	**392,367**	**296,378**	**68,640**

Loans and advances and Islamic financing receivables

2016	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not impaired: Up to 89 days AED'000	Past due but not impaired: 90 days & above AED'000
Trade	11,302,590	1,946,865	13,249,455	376,225	226,644	126,543	164,244	3,225
Construction	1,267,537	3,442,385	4,709,922	61,412	45,973	6,993	6,357	-
Government	283,972	6,310	290,282	-	-	-	-	-
Manufacturing	4,151,479	748,954	4,900,433	194,288	113,696	91,182	142,725	-
Financial institutions	635,414	178,644	814,058	67,337	41,368	133	-	-
Service industries	2,993,571	250,644	3,244,215	387,739	186,184	5,387	13,091	-
Real estate	1,871,196	-	1,871,196	18,874	5,539	-	4,880	-
Individuals	1,517,638	328,284	1,845,922	83,121	52,669	24,606	2,084	-
Gross amount	**24,023,397**	**6,902,086**	**30,925,483**	**1,188,996**	**672,073**	**254,844**	**333,381**	**3,225**

Geographic location analysis

Based on the location of the borrower, an analysis of geographic concentrations of credit risk arising out of loans and advances and Islamic financing receivables as at 31 December 2017 and 2016 is shown below:

2017	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not Impaired	
							Up to 89 days AED'000	90 days & above AED'000
Within UAE	24,529,583	7,361,207	31,890,790	1,336,443	769,365	392,367	296,378	68,640
GCC countries	133,212	148,064	281,276	64,941	43,486	-	-	-
Other	657,234	268,011	925,245	-	-	-	-	-
Total	**25,320,029**	**7,777,282**	**33,097,311**	**1,401,384**	**812,851**	**392,367**	**296,378**	**68,640**

2016	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not impaired	
							Up to 89 days AED'000	90 days & above AED'000
Within UAE	23,350,217	6,749,977	30,100,194	1,121,659	630,705	254,844	264,388	3,225
GCC countries	163,507	79,255	242,762	67,337	41,368	-	7,011	-
Other	509,673	72,854	582,527	-	-	-	61,982	-
Total	**24,023,397**	**6,902,086**	**30,925,483**	**1,188,996**	**672,073**	**254,844**	**333,381**	**3,225**

Currency wise analysis

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

	2017			2016		
	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Funded AED'000	Unfunded AED'000	Gross exposure AED'000
AED	20,181,150	5,147,927	25,329,077	19,070,600	5,046,325	24,116,925
USD	3,931,849	2,359,258	6,291,107	3,581,000	1,574,762	5,155,762
EUR	18,562	164,784	183,346	33,201	155,254	188,455
GBP	64	6,849	6,913	271,947	4,729	276,676
XAU	1,167,091	-	1,167,091	1,056,631	-	1,056,631
Others	21,313	98,464	119,777	10,018	121,016	131,034
Total	**25,320,029**	**7,777,282**	**33,097,311**	**24,023,397**	**6,902,086**	**30,925,483**

Settlement risk

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

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

Risk mitigation, collateral and credit enhancements

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, pledge over listed shares and mortgage and liens over properties or other securities over assets. Pledged interests over vehicles, ships and equipment are also obtained. Collateral generally is not held against non-trading investments and due from banks and financial institutions.

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

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

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Individually impaired				
Pledged deposits	209,894	189,791	8,679	8,215
Debt / equity securities	-	2,137	-	2,137
Property	298,608	225,892	167,446	213,009
Others	892,882	771,176	-	-
Gross amount	**1,401,384**	**1,188,996**	**176,125**	**223,361**
Impairment loss	**(812,851)**	**(672,073)**	**-**	**-**
Carrying amount	**588,533**	**516,923**	**176,125**	**223,361**
Past due but not impaired				
Pledged deposits	102,640	84,056	14,566	22,110
Debt / equity securities	50	-	-	-
Property	163,165	127,757	95,168	59,858
Others	99,163	124,793	-	-
Gross amount	**365,018**	**336,606**	**109,734**	**81,968**
Impairment loss	**-**	**-**	**-**	**-**
Carrying amount	**365,018**	**336,606**	**109,734**	**81,968**

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Neither past due nor impaired				
Pledged deposits	6,296,465	6,980,559	1,912,051	2,138,612
Debt / equity securities	122,078	100,331	100,163	100,331
Property	7,826,909	6,320,051	6,340,033	5,111,106
Others	9,308,175	9,096,854	-	-
Gross amount	**23,553,627**	**22,497,795**	**8,352,247**	**7,350,049**
Collective impairment provision	**(441,351)**	**(532,828)**	**-**	**-**
Carrying amount	**23,112,276**	**21,964,967**	**8,352,247**	**7,350,049**
Total	**24,065,827**	**22,818,496**	**8,638,106**	**7,655,378**
Renegotiated exposure	**2,228,190**	**2,155,114**	**884,964**	**911,334**
Contingent liabilities				
Pledged deposits	4,755,644	3,695,335	1,028,010	424,955
Others	3,021,638	3,206,751	505,869	441,200
Total	**7,777,282**	**6,902,086**	**1,533,879**	**866,155**

Past due but not impaired portfolio ageing is as follows:

	2017 AED'000	2016 AED'000
Less than 1 month	162,298	284,738
1 month to 3 months	134,080	48,643
Greater than 3 months	68,640	3,225
Total	**365,018**	**336,606**

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 also complies with the UAE Central Bank guidelines.

The Group's Credit Risk Rating Methodology follows the categorization of credit risk assets under the following risk classification / grading system:

Risk Grade	2017 AED'000	2016 AED'000
Neither past due nor impaired / Past due but not impaired (RR 1-19)		
Grades 1-18: Performing or normal	23,176,434	21,886,109
Grade 19: Other Loans Especially Mentioned (OLEM)	742,211	948,292
	23,918,645	**22,834,401**
Individually impaired (RR 20-22)		
Grade 20: Sub-standard	499,246	423,463
Grade 21: Doubtful	432,172	411,332
Grade 22: Loss	469,966	354,201
	1,401,384	**1,188,996**
Total	**25,320,029**	**24,023,397**

Impaired loans and advances and Islamic financing receivables

Impaired loans and advances and Islamic financing receivables are those financial assets where it is probable that the Group will be unable to collect all principal, interest and profit due according to the contractual terms of the loan and financing agreements.

Past due but not impaired loans and advances and Islamic financing receivables

Loans and advances and Islamic financing receivables are recognized as past due but not impaired where contractual interest and profit or principal payments are past due but the Group believes that the assets are not impaired on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

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 / restructured generally due to deterioration in the borrower's / financed parties' financial position and where the Group has made concessions that it would not otherwise consider. These loans and advances and Islamic financing receivables are not delinquent; however, impairment is recognized in accordance with IAS 39 to represent the benefits foregone by the Group. The impairment recognized will be gradually unwound to the consolidated statement of income in a manner that corresponds to the performance of the account in line with the restructuring terms.

Allowances for impairment

On a monthly basis, the Group establishes an allowance for impairment losses that represents its estimate of losses in the loans and advances and Islamic financing receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance established for groups of homogenous assets in respect of losses that may have been incurred but have not been identified on loans and advances and Islamic financing receivables subject to individual assessment for impairment; and the general provision on total credit risk weighted assets in line with the UAE Central Bank's requirements. The methods of assessment of allowances for impairment have been summarized in note 4.

As part of the IRB approach, the Bank has designed and implemented an independently validated master credit rating scale, corporate banking rating scale and business banking rating scale linked to the observed historical defaults in the Bank's credit portfolio through the cycle which has determined the mean probability of default for the credit portfolio and have assigned individual probabilities of default to each credit risk grade. Together with the Exposure at Default and Loss Given Default, the Bank determines the Expected Loss of each of its corporate and commercial borrower. In order to monitor the risk migration of its borrowers, the Bank computes the one year credit default migration through transitional matrices while ensuring that the potential impact of the one year default is adequately covered by the overall credit provisioning level and the capital adequacy level.

Write-off policy

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

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 (RC), Risk Committee of the Board and the Board.

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the UAE Central Bank representing **18.9%** (2016: 19.0%) of total assets which also include mandatory cash reserve deposits with the UAE Central Bank. Short-term liquid assets also include investment grade marketable securities, due from banks and financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained both under normal conditions and simulated stress scenarios.

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

	ELAR		**LSRR**	
	2017	2016	2017	2016
12 month - Average	21.27%	20.36%	88.06%	87.18%
12 month - Highest	24.05%	23.25%	91.41%	90.06%
12 month - Lowest	18.75%	17.20%	84.81%	84.85%

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

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

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

As part of the ICAAP, the Bank assesses the impact on capital adequacy of liquidity risk including concentrations by carrying out stress tests. In preparation for compliance with Basel III requirements, the Group has implemented a system for calculating Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in line with the UAE Central Bank's regulations and is working on strengthening processes and qualitative requirements proactively. At 31 December 2017, LCR and NSFR stood at **270%** (2016: 182%) and **107%** (2016: 103%) respectively.

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

At 31 December 2017

	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with the UAE Central Bank	4,266,739	600,000	775,000	1,200,000	75,000	-	6,916,739
Due from banks and financial institutions	1,198,747	428,438	295,317	17,516	-	-	1,940,018
Investments and Islamic instruments	-	221,731	48,025	36,861	1,459,638	150,067	1,916,322
Loans and advances and Islamic financing receivables	6,408,601	5,473,680	2,456,758	1,772,696	5,527,812	2,426,280	24,065,827
Property and equipment and capital work-in-progress	-	-	-	-	-	164,533	164,533
Other assets	438,227	874,845	312,988	17,250	9,627	-	1,652,937
Total assets	**12,312,314**	**7,598,694**	**3,888,088**	**3,044,323**	**7,072,077**	**2,740,880**	**36,656,376**
Due to banks	228,140	399,069	306	-	-	-	627,515
Customer deposits and Islamic customer deposits	12,344,783	5,854,583	4,695,708	4,000,907	959,016	10,000	27,864,997
Term borrowings	-	330,570	183,650	202,015	293,840	400,000	1,410,075
Other liabilities	438,227	1,085,059	312,988	17,250	9,627	-	1,863,151
Total shareholders' equity	-	-	-	-	-	4,890,638	4,890,638
Total liabilities and shareholders' equity	**13,011,150**	**7,669,281**	**5,192,652**	**4,220,172**	**1,262,483**	**5,300,638**	**36,656,376**
On Balance Sheet Gap	**(698,836)**	**(70,587)**	**(1,304,564)**	**(1,175,849)**	**5,809,594**	**(2,559,758)**	**-**
Cumulative Gap	**(698,836)**	**(769,423)**	**(2,073,987)**	**(3,249,836)**	**2,559,758**	**-**	**-**

At 31 December 2016

	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Total assets	**10,318,931**	**7,994,821**	**4,154,481**	**2,726,878**	**7,996,890**	**2,476,118**	**35,668,119**
Total liabilities and shareholders' equity	**13,020,360**	**7,482,478**	**3,943,109**	**3,849,768**	**2,383,348**	**4,989,056**	**35,668,119**
On Balance Sheet Gap	**(2,701,429)**	**512,343**	**211,372**	**(1,122,890)**	**5,613,542**	**(2,512,938)**	**-**
Cumulative Gap	**(2,701,429)**	**(2,189,086)**	**(1,977,714)**	**(3,100,604)**	**2,512,938**	**-**	**-**

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

At 31 December 2017

	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	5,500,822	-	-	-	-	-	5,500,822
Letters of credit	149,763	1,081,632	380,866	70,439	593,760	-	2,276,460
Forward foreign exchange contracts	5,691,910	3,368,077	1,667,983	2,445,907	557,613	-	13,731,490
Currency options	185,114	419,596	627,149	929,593	3,628,924	-	5,790,376
Interest rate derivatives	-	434,000	7,347	33,032	3,042,976	1,027,770	4,545,125
Commodity derivatives	31,676	337,633	2,061	16,023	20,289	-	407,682
Total	**11,559,285**	**5,640,938**	**2,685,406**	**3,494,994**	**7,843,562**	**1,027,770**	**32,251,955**

At 31 December 2016

	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	5,195,822	-	-	-	-	-	5,195,822
Letters of credit	201,786	705,155	361,327	90,587	347,409	-	1,706,264
Forward foreign exchange contracts	6,893,449	3,388,719	2,398,557	1,517,651	110,268	-	14,308,644
Currency options	206,258	447,713	72,249	759,343	3,966,840	-	5,452,403
Interest rate derivatives	222	14,998	1,010	-	2,810,322	1,619,815	4,446,367
Commodity derivatives	19,253	534,540	3,919	14,145	21,796	-	593,653
Total	**12,516,790**	**5,091,125**	**2,837,062**	**2,381,726**	**7,256,635**	**1,619,815**	**31,703,153**

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

	2017			**2016**		
	Positive fair value AED'000	Negative fair value AED'000	Net AED'000	Positive fair value AED'000	Negative fair value AED'000	Net AED'000
Derivatives						
Forward foreign exchange contracts	25,428	30,804	(5,376)	61,284	55,790	5,494
Currency options	13,479	13,479	-	18,511	17,211	1,300
Interest rate derivatives	27,167	26,342	825	37,127	35,418	1,709
Commodity derivatives	19,436	19,512	(76)	25,874	23,443	2,431
Total	**85,510**	**90,137**	**(4,627)**	**142,796**	**131,862**	**10,934**

e. Market risk

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

Management of market risks

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

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

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. When the loss reaches 10%, IC shall escalate to RC to decide the strategy of either holding the investment or its disposal. Any loss in excess of 15% will be escalated to the Board.

The table below shows the impact of decline in fair value of investments by 10% on net income and regulatory capital and equity for 2017 and 2016:

	Assumed level of change %	Impact on net income and regulatory capital 2017 AED'000	Impact on net income and regulatory capital 2016 AED'000
Investments carried at fair value through the income statement			
Reference benchmarks: Fair value of managed funds	10%	661	709
	Assumed level of change %	**Impact on equity 2017 AED'000**	**Impact on equity 2016 AED'000**
Available for sale investments			
Reference benchmarks: Quoted debt securities / Islamic sukuks	10%	121,314	103,582
Other Investments	10%	28,825	21,787

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 RC supported by a business case and ratification by the Board. During the year, the Group complied with the open position limits and exception approval process.

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

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

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

Currency	USD	EUR	Others
Open position			
2017 (AED in 000's)	(83,901)	6,766	21,179
2016 (AED in 000's)	155,858	(741)	17,260
Assumed change in exchange rates	5%	5%	5%
Impact on exchange income from increase in exchange rates:			
2017 (AED in 000's)	(4,195)	338	1,059
2016 (AED in 000's)	7,793	(37)	863
Impact on exchange income from decrease in exchange rates:			
2017 (AED in 000's)	4,195	(338)	(1,059)
2016 (AED in 000's)	(7,793)	37	(863)

At 31 December 2017, the impact on exchange income due to change in exchange rate by 5% is ± **2.8%** (2016: ±8.4%). Excluding the impact of US$ open position, the impact is **±1.4%** (2016: ±0.8%).

Interest rate risk

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

The Group's treasury manages interest rate risk principally through monitoring interest rate gaps and matching the interest re-pricing profile of financial assets and liabilities. The Group's long term financial assets and liabilities are priced generally on a floating rate basis, which tracks the changes in market interest rates. Long term loans and advances and Islamic financing receivables that are priced on a fixed rate basis constitute **3.57%** (2016: 6.26%) of the total loans and advances and Islamic financing receivables portfolio.

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

Currency	AED	USD	EUR	Others	Total
Assumed change in interest / profit rates	±100 bps	±100 bps	±100 bps	±100 bps	±100 bps
Impact on net interest income and net income from Islamic financing and investment activities from increase in interest / profit rates					
2017 (AED in 000's)	80,541	3,599	607	(3,804)	80,943
2016 (AED in 000's)	86,371	(3,945)	1,401	(5,322)	78,505
Impact on net interest income and net income from Islamic financing and investment activities from decrease in interest / profit rates					
2017 (AED in 000's)	(80,491)	(3,698)	(607)	3,903	(80,893)
2016 (AED in 000's)	(75,091)	3,945	(573)	4,494	(67,225)

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

Impact on net interest income and net income from Islamic financing and investment activities				
	2017		**2016**	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	2.21%	- 2.21%	2.31%	-2.31%
50	4.41%	- 4.41%	4.63%	-4.63%
100	8.82%	- 8.82%	9.26%	-7.93%
Impact on regulatory capital				
	2017		**2016**	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	0.36%	- 0.36%	0.38%	-0.38%
50	0.73%	- 0.73%	0.75%	-0.75%
100	1.46%	- 1.46%	1.50%	-1.29%

The Group also conducts interest rate stress testing based on modified duration approach. The results of the shift analysis are reviewed monthly by ALCO, which along with Marketing Committee (MC) and RC 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:

At 31 December 2017

	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Cash and balances with the UAE Central Bank	1,500,000	600,000	775,000	1,200,000	75,000	-	2,766,739	6,916,739
Due from banks and financial institutions	801,550	515,335	296,641	17,516	-	-	308,976	1,940,018
Investments and Islamic instruments	-	221,730	48,025	36,861	1,349,714	172,154	87,838	1,916,322
Loans and advances and Islamic financing receivables	9,796,045	9,395,899	2,882,982	724,587	492,245	624,745	149,324	24,065,827
Other assets	-	-	-	-	-	-	1,632,907	1,632,907
Total financial assets	**12,097,595**	**10,732,964**	**4,002,648**	**1,978,964**	**1,916,959**	**796,899**	**4,945,784**	**36,471,813**
Due to banks	133,998	486,534	306	-	-	-	6,677	627,515
Customer deposits and Islamic customer deposits	4,816,002	6,170,094	4,657,982	4,001,668	952,016	10,000	7,257,235	27,864,997
Term borrowings	495,855	914,220	-	-	-	-	-	1,410,075
Other liabilities	-	-	-	-	-	-	1,785,113	1,785,113
Total financial liabilities	**5,445,855**	**7,570,848**	**4,658,288**	**4,001,668**	**952,016**	**10,000**	**9,049,025**	**31,687,700**
Interest rate sensitivity gap								
On-balance Sheet	**6,651,740**	**3,162,116**	**(655,640)**	**(2,022,704)**	**964,943**	**786,899**	**(4,103,241)**	
Off-balance Sheet	**951,232**	**3,069,250**	**442,000**	**9,183**	**73,460**	**-**	**19,929,548**	
Cumulative	**7,602,972**	**13,834,338**	**13,620,698**	**11,607,177**	**12,645,580**	**13,432,479**	**29,258,786**	

At 31 December 2016

Cumulative interest rate sensitivity gap	**6,450,783**	**12,326,952**	**13,929,234**	**11,966,035**	**12,111,532**	**13,019,053**	**29,268,035**	

Interest rate yields

The average earning on placements and balances with banks was **1.33%** (2016: 0.87%), on loans and advances and Islamic financing receivables was **5.28%** (2016: 5.15%) and on the investment portfolio was **2.83%** (2016: 2.11%). The average cost of customer deposits and Islamic customer deposits was **1.79%** (2016: 1.55%) and of due to banks and term borrowings was **2.65%** (2016: 1.31%).

Derivative financial instruments

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

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

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

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

iii. it is settled at a future date.

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

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

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

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

Fair values

31 December 2017	Assets AED'000	Liabilities AED'000	Notional AED'000
Derivatives held as fair value hedges			
Interest rate swaps	557	-	150,593
Total derivative financial instruments	557	-	150,593
31 December 2016	Assets AED'000	Liabilities AED'000	Notional AED'000
Derivatives held as fair value hedges			
Interest rate swaps	1,325	-	73,460
Total derivative financial instruments	1,325	-	73,460

f. Operational risk

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

The Group's objective in managing operational risk is to balance avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness. The Group has defined policies and procedures which are followed to manage operational risk through the Operational Risk and Compliance Committee (ORCC) forum. Compliance with Group standards is supported by a programme of periodic risk and internal control assessments and reviews undertaken by Internal Audit and Operational Risk and Compliance. The results of reviews are discussed with the businesses and functional units to which they relate and regular reports are provided to the Internal Audit, RC, Risk Committee of the Board 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 II risks related to Strategic Risk, Reputational Risk, Residual Risk and Settlement Risk through an internally designed but externally independently validated scorecard approach which encompasses a broad range of best industry practices including the regulatory requirements and guidance issued from time to time, locally and internationally.

g. Management of capital

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

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

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

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

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

In implementing capital requirements, the Group calculates its capital adequacy ratio in accordance with the new 'Capital Adequacy Regulations' issued by the UAE Central Bank during 2017 for implementation from 31 December 2017. The UAE Central Bank introduced the implementation of Basel III reporting which the Group has adopted and has also developed and implemented risk management measurement tools and robust practices to become a Basel II Foundation Internal Rating Based Approach (FIRB) compliant bank. The UAE Central Bank places considerable emphasis on the ICAAP and the Group has developed an economic capital model to comply with the UAE Central Bank requirements.

Regulatory Capital

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

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

i. Total regulatory capital (net of regulatory adjustments) – at least 10.5% of 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 available-for-sale with a hair-cut of 55%; and Additional Tier 1 (AT1) comprises of Tier 1 capital notes.

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

ii. Banks must maintain a Capital Conservation Buffer (CCB) of 2.5% of RWAs in the form of CET1 capital. 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 CBUAE

	2017	2016
Capital element	Basel III	Basel II
Minimum common equity tier 1 ratio	7.0%	Not applicable
Minimum tier 1 capital ratio	8.5%	8.0%
Minimum capital adequacy ratio	10.5%	12.0%
Capital conservation buffer	1.25%	Not applicable

Capital Stress Testing:

The Group carried out and passed the CBUAE stress testing exercise in accordance with the macroeconomic and business scenarios prescribed by the UAE Central Bank through its guidelines on '2017 Stress Testing Guidance for Participating Banks' issued on 06 August 2017. The results also included the mitigation plan / management action in response to the impact of the stress scenario on the capital adequacy of the Bank.

The stress testing exercise achieves the following objectives:

- Provides a forward looking assessment of risk under a stressed scenario;
- Impact of various Macroeconomic Variables for UAE markets
- Elaborates the methodologies, and the assumptions undertaken in the process;
- Assisting the Group in shaping its strategy, by gauging the capital impact due to stress scenarios;
- Enable the Group to assess extreme risk scenarios, along with contingency plan for such events; and
- Reporting results to the senior management and the Board of Directors for their review and approval to facilitate contingency planning.

Capital Allocation:

- The Group also assesses internally its capital requirements taking into consideration its growth requirements and business plans, and quantifies its regulatory and risk/economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk on the banking book, concentration risk, stress testing, strategic risk, legal and compliance risk, and reputational risk are all part of the ICAAP.
- The Group also calculates Risk Adjusted Return on Risk Adjusted Capital (RARORAC) for credit applications that are priced on a risk-adjusted basis.

	2017	2016
	AED'000	AED'000
CET1 capital		
Share capital	1,366,527	1,271,188
Statutory reserve	549,992	503,223
Special reserve	444,992	398,223
Retained earnings	1,430,727	1,320,619
Accumulated other comprehensive income	(4,089)	-
CET1 total	**3,788,149**	**3,493,253**
Additional Tier 1 (AT1) Capital		
Tier 1 capital notes	1,000,000	1,000,000
Total Tier 1	**4,788,149**	**4,493,253**
Tier 2 Capital		
Available-for-sale revaluation reserve	-	(9,536)
Subordinated facilities (note 14.2)	400,000	400,000
Collective impairment provision	365,345	342,017
Total Tier 2	**765,345**	**732,481**
Total capital base (a)	**5,553,494**	**5,225,734**

Risk - weighted assets

	2017	2016
	Risk-weighted equivalent AED'000	Risk-weighted equivalent AED'000
Credit risk	29,227,625	27,361,373
Market risk	30,893	5,249
Operational risk	2,464,327	2,262,517
Total risk weighted assets (b)	**31,722,845**	**29,629,139**
Capital adequacy ratio (a) / (b) - %	**17.5**	**17.6**
Tier 1 ratio - %	**15.1**	**15.2**
Common equity tier 1 ratio (CET 1) - %	**11.9**	**11.8**

2017: Under Basel II, the capital adequacy, tier 1 and common equity ratios stood at **17.5%**, **15.1%** and **12.0%** respectively.

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

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

Apart from credit, market and operational risk covered in Pillar I, the ICAAP report covers other material risks like liquidity risk, concentration risk, interest rate risk in banking book, strategic risk, residual risk, reputational risk and settlement risk. The ICAAP report also covers the stress testing framework for credit, market, liquidity and interest rate risk on banking book. The Pillar II CAR for the year ended 31 December 2017 was **14.9%** (2016: 14.5%).

After adjustment of the one-off impact of IFRS 9 as at 1 January 2018 in the opening retained earnings, the capital adequacy ratios will be CET 1 **11.1%**, Tier 1 ratio **14.3%** and total CAR **16.7%**.

Risk weights for credit risk

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

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable External Credit Assessment Institutions (ECAIs), except that, for all GCC sovereigns a 0% risk-weight has been applied.

Claims on public sector entities (PSEs)

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

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

Claims on multilateral development banks (MDBs)

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

Claims on banks

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

Claims on corporate portfolio

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

Claims on regulatory retail exposures

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

Claims secured by residential property

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

Claims secured by commercial property

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

Past due exposures

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

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

Equity portfolios

Equity in banking book is risk weighted at 150%.

Other exposures

These are risk weighted at 100%.

Credit risk and risk weights

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

2016 (AED'000)	On and off balance sheet	Credit risk mitigation (CRM)			Risk-weighted assets
	Gross outstanding	Exposure before CRM	CRM	After CRM	
Claims on sovereigns	7,105,199	7,105,199	-	7,105,199	-
Claims on PSEs	112,085	112,085	-	112,085	-
Claims on banks	3,578,108	3,578,108	-	3,567,755	1,688,046
Claims on corporates and GREs	27,503,028	27,503,028	2,856,531	25,232,165	21,429,209
Regulatory retail exposures	1,804,599	1,804,599	109,356	1,773,628	1,664,272
Residential retail portfolio	587,227	587,227	540	587,227	586,687
Commercial real estate	994,132	994,132	-	994,132	994,132
Past due exposures	1,335,999	558,099	10,001	548,804	543,879
Higher-risk categories	8,028	8,028	-	8,028	12,042
Other exposures	724,426	724,426	-	724,426	443,106
Total	**43,752,831**	**42,974,931**	**2,976,428**	**40,653,449**	**27,361,373**

On and off balance sheet exposures include unutilized credit limits which are revocable at the discretion of the Bank amounting to **AED 16,040 million** (2016: AED 15,859 million).

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

	2017 AED'000	2016 AED'000
Interest rate risk		
» Specific interest rate risk	484	-
» General interest rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	2,759	630
Option risk	-	-
Total market risk capital charge	**3,243**	**630**
Market risk – risk-weighted assets	**30,893**	**5,249**

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

Capital charge against option risk is **nil** (2016: nil), as all currency options are covered through back-to-back transactions with the respective counter parties.

Operational risk and risk weights

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

6. Financial assets and liabilities

6.1 Classification

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

2017	At fair value through profit or loss AED'000	At fair value through equity AED'000	Held-to-maturity AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets						
Cash and balances with the UAE Central Bank	-	-	-	-	6,916,739	6,916,739
Due from banks and financial institutions	-	-	-	-	1,940,018	1,940,018
Investments and Islamic instruments - at fair value	6,608	1,501,388	-	-	-	1,507,996
Investments and Islamic instruments - at cost	-	-	408,326	-	-	408,326
Loans and advances and Islamic financing receivables	-	-	-	24,065,827	-	24,065,827
Other assets	-	-	-	-	1,632,907	1,632,907
Total financial assets	**6,608**	**1,501,388**	**408,326**	**24,065,827**	**10,489,664**	**36,471,813**
Financial liabilities						
Due to banks	-	-	-	-	627,515	627,515
Customer deposits and Islamic customer deposits	7,000	-	-	-	27,857,997	27,864,997
Term borrowings	-	-	-	-	1,410,075	1,410,075
Other liabilities	-	-	-	-	1,785,113	1,785,113
Total financial liabilities	**7,000**	**-**	**-**	**-**	**31,680,700**	**31,687,700**

2016	At fair value through profit or loss AED'000	At fair value through equity AED'000	Held-to-maturity AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets						
Cash and balances with the UAE Central Bank	-	-	-	-	6,780,092	6,780,092
Due from banks and financial institutions	-	-	-	-	2,142,690	2,142,690
Investments and Islamic instruments - at fair value	7,091	1,253,685	-	-	-	1,260,776
Investments and Islamic instruments - at cost	-	-	525,503	-	-	525,503
Loans and advances and Islamic financing receivables	-	-	-	22,818,496	-	22,818,496
Other assets	-	-	-	-	1,952,019	1,952,019
Total financial assets	**7,091**	**1,253,685**	**525,503**	**22,818,496**	**10,874,801**	**35,479,576**
Financial liabilities						
Due to banks	-	-	-	-	1,110,041	1,110,041
Customer deposits and Islamic customer deposits	1,010	-	-	-	25,937,481	25,938,491
Term borrowings	-	-	-	-	1,906,649	1,906,649
Other liabilities	-	-	-	-	2,057,427	2,057,427
Total financial liabilities	**1,010**	**-**	**-**	**-**	**31,011,598**	**31,012,608**

6.2 Fair value measurement – fair value hierarchy:

2017	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
» Debt securities / Islamic sukuks	-	1,213,140	-	-
» Other investments	-	288,248	6,608	-
Customer deposits and Islamic customer deposits	-	-	7,000	-
Forward foreign exchange contracts	13,731,490	-	(5,376)	-
Currency options	5,790,376	-	-	-
Interest rate derivatives	4,545,125	-	825	-
Commodity derivatives	407,682	-	(76)	-

2016	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
» Debt securities / Islamic sukuks	-	1,035,819	-	-
» Other investments	-	217,866	7,091	-
Customer deposits and Islamic customer deposits	-	-	1,010	-
Forward foreign exchange contracts	14,308,644	-	5,494	-
Currency options	5,452,403	-	1,300	-
Interest rate derivatives	4,446,367	-	1,709	-
Commodity derivatives	593,653	-	2,431	-

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

7. Cash and balances with the UAE Central Bank

	2017 AED'000	2016 AED'000
Cash on hand	346,101	281,321
Certificates of deposit (CDs) with the UAE Central Bank	4,150,000	4,905,000
Other balances with the UAE Central Bank (note 7.1)	2,420,638	1,593,771
	6,916,739	**6,780,092**

7.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of **AED 1,274.3 million** (2016: AED 1,116.5 million).

8. Due from banks and financial institutions

8.1 By type

	2017 AED'000	2016 AED'000
Placements	405,475	438,057
Current accounts / term deposits	364,500	606,290
Bills discounted	1,170,043	1,098,343
	1,940,018	**2,142,690**

As at 31 December 2017, current accounts / term deposits include cash collateral of **AED 13.5 million** (2016: AED 30.4 million) in respect of negative fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

8.2 By geographical area

	2017 AED'000	2016 AED'000
Within UAE	814,277	1,188,920
GCC countries	63,643	123,000
Others	1,062,098	830,770
	1,940,018	**2,142,690**

8.3 The currency-wise analysis is set out below:

	2017 AED'000	2016 AED'000
AED	411,820	763,117
USD	1,337,632	1,176,016
EUR	91,876	121,688
GBP	6,354	15,648
Others	92,336	66,221
	1,940,018	**2,142,690**

9. Investments and Islamic instruments

	2017 AED'000	2016 AED'000
Investments at fair value through profit or loss (FVTPL) (note 9.1)	**6,608**	**7,091**
Available-for-sale (AFS)		
Debt securities / Islamic sukuks (note 9.2)	1,213,140	1,035,819
Other investments (note 9.3)	288,248	217,866
	1,501,388	**1,253,685**
Held-to-maturity (HTM)		
Debt securities / Islamic sukuks (note 9.2)	408,326	525,503
	1,916,322	**1,786,279**

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 1,621.5 million** (2016: AED 1,561.3 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices of which are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions. The debt securities portfolio includes floating rate securities amounting to **AED 463.9 million** (2016: AED 625.8 million).

Debt securities include Islamic sukuks amounting to **AED 477.7 million** (2016: AED 453.6 million).

9.3 Other investments include shares purchased by the Bank, amounting to **AED 0.3 million** (2016: nil), during the year.

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

	2017 AED'000	2016 AED'000
Government	633,496	361,918
Banks and financial institutions	761,369	1,010,630
Others	521,457	413,731
	1,916,322	**1,786,279**

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

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

2016	Debt securities/ Islamic sukuks AED'000	Other investments AED'000	Total AED'000
AAA	18,052	-	18,052
AA+	90,826	-	90,826
AA	108,152	-	108,152
AA-	186,473	-	186,473
A+	187,116	109,671	296,787
A	206,613	90,458	297,071
A-	215,713	-	215,713
BBB+	311,492	-	311,492
BBB	33,444	-	33,444
BBB-	18,353	937	19,290
BB	55,036	-	55,036
B+	73,677	-	73,677
Unrated	56,375	23,891	80,266
	1,561,322	224,957	1,786,279

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

	2017 AED'000	2016 AED'000
Within UAE	225,662	297,433
GCC countries	189,890	107,132
Others	1,500,770	1,381,714
	1,916,322	1,786,279

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

	2017 AED'000	2016 AED'000
AED	302	-
USD	1,787,610	1,629,110
EUR	121,794	134,379
GBP	-	22,690
JPY	6,616	100
	1,916,322	1,786,279

10. Loans and advances and Islamic financing receivables

10.1 Loans and advances and Islamic financing receivables by type:

	2017 AED'000	2016 AED'000
Overdrafts	1,895,865	2,008,364
Term loans	17,928,253	16,454,987
Loans against trust receipts	3,260,076	3,415,502
Bills discounted	1,832,941	1,742,085
Bills drawn under letters of credit	402,894	402,459
	25,320,029	24,023,397
Allowance for impairment losses (note 10.3)	(1,254,202)	(1,204,901)
Net loans and advances and Islamic financing receivables	**24,065,827**	**22,818,496**

10.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to **AED 3,086.3 million** (2016: AED 1,631.3 million) provided through a Shari'a compliant Islamic window, NBF Islamic.

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

	2017 AED'000	2016 AED'000
Movement in allowances for impairment losses		
Balance at 1 January	1,204,901	1,054,223
Net allowance for impairment losses	441,668	405,522
Written-off during the year	(392,367)	(254,844)
	1,254,202	1,204,901

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.

	2017 AED'000	2016 AED'000
Contingent liabilities:		
Letters of credit covering movement of goods	2,276,460	1,706,264
Financial guarantees and other direct credit substitutes	838,366	759,458
Bid bonds, performance bonds and other transaction related contingencies	4,662,456	4,436,364
	7,777,282	6,902,086
Commitments:		
Undrawn irrevocable commitments – credit related	204,294	397,898
Others	114,801	58,462
	319,095	456,360
	8,096,377	7,358,446

The total undrawn commitments which are revocable at the discretion of the Bank amount to **AED 16,040 million** (2016: AED 15,859 million). Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not necessarily represent expected future cash flows.

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

AED'000	Freehold land	Buildings & leasehold improvements	Motor vehicles, furniture, software & equipment	Total
Cost				
At 1 January 2016	**14,066**	**126,384**	**152,774**	**293,224**
Additions	-	3,694	18,775	22,469
Disposals	-	-	(450)	(450)
At 31 December 2016	**14,066**	**130,078**	**171,099**	**315,243**
At 1 January 2017	**14,066**	**130,078**	**171,099**	**315,243**
Additions	-	3,999	26,932	30,931
Disposals	-	-	-	-
At 31 December 2017	**14,066**	**134,077**	**198,031**	**346,174**
Depreciation				
At 1 January 2016	**-**	**69,121**	**109,392**	**178,513**
Charge for the year	-	4,204	18,471	22,675
On disposals	-	-	(271)	(271)
At 31 December 2016	**-**	**73,325**	**127,592**	**200,917**
At 1 January 2017	**-**	**73,325**	**127,592**	**200,917**
Charge for the year	-	4,306	21,322	25,628
On disposals	-	-	-	-
At 31 December 2017	**-**	**77,631**	**148,914**	**226,545**
Net book value				
At 31 December 2017	**14,066**	**56,446**	**49,117**	**119,629**
At 31 December 2016	**14,066**	**56,753**	**43,507**	**114,326**

The buildings in Fujairah, Dibba, Masafi, Qidfa and Tawian 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 (2016: AED 1 each).

12.1 Capital work-in-progress

	2017 AED'000	2016 AED'000
	44,904	**37,469**

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

13. Other assets

	2017 AED'000	2016 AED'000
Accrued interest / profit	150,687	143,675
Prepayments and deposits	13,882	14,613
Customer liabilities for acceptances	1,389,728	1,658,980
Fair value of derivatives	85,510	142,796
Others	13,130	28,703
	1,652,937	**1,988,767**

14. Due to banks and term borrowings

	2017 AED'000	2016 AED'000
By type:		
Bilateral borrowings (note 14.1)	1,010,075	1,506,649
Sub-ordinated debt (note 14.2)	400,000	400,000
	1,410,075	**1,906,649**
Due to banks (note 14.3)	627,515	1,110,041
	2,037,590	**3,016,690**
By geographical area:		
Within UAE	390,624	204,072
GCC Countries	330,570	514,220
Others	1,316,396	2,298,398
	2,037,590	**3,016,690**

As at 31 December 2017, due to banks include cash collateral of **AED 10.3 million** (2016: AED 2.1 million), in respect of positive fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

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

Loan no.	Year obtained	Maturity	Interest rate	2017 AED '000	2016 AED '000
1	2017	Jul-20	Libor + Margin	183,650	-
2	2017	Mar-19	Libor + Margin	55,095	-
3	2017	Feb-18	Libor + Margin	36,730	-
4	2017	Mar-18	Libor + Margin	73,460	-
5	2017	Mar-19	Libor + Margin	55,095	-
6	2016	Jul-18	Libor + Margin	91,825	91,825
7	2016	May-18	Libor + Margin	183,650	183,650
8	2016	Mar-18	Libor + Margin	110,190	110,190
9	2016	Feb-18	Libor + Margin	110,190	110,190
10	2015	Nov-18	Libor + Margin	110,190	110,190
11	2016	Nov-17	Libor + Margin	-	36,400
12	2016	Oct-17	Libor + Margin	-	73,460
13	2016	Jun-17	Libor + Margin	-	36,730
14	2015	May-17	Libor + Margin	-	73,460
15	2016	Mar-17	Libor + Margin	-	238,745
16	2016	Mar-17	Libor + Margin	-	61,460
17	2016	Mar-17	Libor + Margin	-	31,414
18	2016	Mar-17	Libor + Margin	-	36,730
19	2015	Mar-17	Libor + Margin	-	91,825
20	2015	Mar-17	Libor + Margin	-	183,650
21	2016	Feb-17	Libor + Margin	-	36,730
				1,010,075	**1,506,649**

Bilateral borrowings include a Murabaha borrowing amounting to **AED 183.7 million** (2016: Nil) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

14.2 On 27 November 2013, the Group arranged a term subordinated loan facility, amounting to AED 400 million, with a finance company. The facility carries an interest rate which is the aggregate of margin and EIBOR, payable quarterly. As per the terms of the facility, the full principal amount of the facility is to be repaid on 27 November 2023. The UAE Central Bank has approved the facility to be considered as Tier 2 capital for regulatory purposes.

14.3 Due to banks include gold related borrowings amounting to **AED 535.5 million** (2016: AED 925.1 million) utilized to finance gold loans extended to customers on a matched basis

15. Customer deposits and Islamic customer deposits

	2017	2016
	AED'000	AED'000
By type:		
Demand and margin deposits	8,583,973	7,532,743
Saving deposits	331,592	337,644
Fixed term and notice deposits	18,949,432	18,068,104
	27,864,997	**25,938,491**
By geographical area:		
Within UAE	25,258,446	23,747,770
GCC countries	2,029,631	1,870,151
Others	576,920	320,570
	27,864,997	**25,938,491**

15.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha and Wakala deposits amounting to **AED 3,673.7 million** (2016: AED 2,931.5 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

16. Other liabilities

	2017	2016
	AED'000	AED'000
Accrued interest / profit	142,000	121,941
Employee end of service and other long term benefits (Note 16.1)	45,576	43,480
Accrued expenses	90,988	101,994
Directors' annual remuneration	3,000	3,000
Liabilities under acceptances	1,389,728	1,658,980
Fair value of derivatives	90,137	131,862
Others	101,722	72,625
	1,863,151	**2,133,882**

16.1 Employee end of service and other long term benefits

	2017	2016
	AED'000	AED'000
At 1 January	43,480	39,750
Charge for the year	13,514	13,071
Payment during the year	(11,418)	(9,341)
At 31 December	**45,576**	**43,480**

16.2 Provision for employees' end of service benefits

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2017, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method, an assessment has been made of employees' expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average increment/ promotion costs of 1.5%. The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3.5%.

17. Shareholders' equity

17.1 Share capital

	2017	2016
	AED'000	AED'000
Authorised, issued and fully paid:		
1,366,526,563 shares of AED 1 each (2016: 1,271,187,500 shares of AED 1 each)	1,366,527	1,271,188

17.2 Proposed dividend

The Board of Directors has proposed a cash dividend of **7.5%** (2016: 7.5%) and bonus shares of **7.5%** (2016: 7.5%) of share capital for the year ended 31 December 2017.

17.3 Statutory and special reserve

In accordance with the Bank's Articles of Association, the provisions of Article 82 of Union Law No. 10 of 1980 and Article 239 of Federal Law No. 2 of 2015, 10% of the Bank's profit for the year shall be transferred to a statutory reserve which is not distributable. Additionally, in accordance with the Bank's Articles of Association, another 10% of the Bank's profit for the year shall be transferred to a special reserve which is to be used for purposes to be determined by the annual general assembly meeting upon the proposal of the Board of Directors.

18. Tier 1 capital notes

In March 2013, the Bank issued Tier 1 capital notes with a principal amount of AED 500 million (the "Capital Notes"). Issuance of these Capital Notes was approved by the Bank's Extra Ordinary General Meeting (EGM) in March 2013. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Notes bear interest at a fixed rate payable semi-annually in arrears. The Capital Notes are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Bank subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest / coupon payment.

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

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

	2017	2016
	AED'000	AED'000
Loans and advances and Islamic financing receivables (note 19.1)	1,339,757	1,182,006
Due from banks including the UAE Central Bank CDs (note 19.1)	71,588	58,651
Investments and Islamic instruments (note 19.2)	41,237	35,162
	1,452,582	**1,275,819**

19.1 Includes income from Islamic financing activities amounting to **AED 121.5 million** (2016: AED 57.3 million) for the year ended 31 December 2017.

19.2 Includes income from Islamic investment activities amounting to **AED 12.0 million** (2016: AED 13.3 million) for the year ended 31 December 2017.

20. Interest expense and distribution to Islamic depositors

	2017	2016
	AED'000	AED'000
Due to banks including term borrowings	77,426	65,150
Customer deposits and Islamic customer deposits (note 20.1)	457,596	362,468
	535,022	**427,618**

20.1 Includes distribution to Islamic depositors amounting to **AED 97.4 million** (2016: AED 41.5 million) for the year ended 31 December 2017.

21. Net fees and commission income

	2017 AED'000	2016 AED'000
Fees and commission income		
Letters of credit	98,558	99,793
Letters of guarantee	50,232	47,201
Lending fees	140,459	143,295
Asset management and investment services	139	46
Commission on transfers	25,937	22,027
Others	21,029	16,223
Total fees and commission income	**336,354**	**328,585**
Fees and commission expense		
Brokerage expense	4,426	971
Card related charges	16,575	13,877
Other charges	3,893	2,737
Total fees and commission expense	**24,894**	**17,585**
Net fees and commission income	**311,460**	**311,000**

22. Income from investments and Islamic instruments

	2017 AED'000	2016 AED'000
Net fair value gains on investments and Islamic instruments	19,322	11,131

23. Other operating income

	2017 AED'000	2016 AED'000
Rental income	169	176
Rebates	9,159	7,060
Other miscellaneous income	20,060	39,250
	29,388	**46,486**

24. Employee benefits expense

Employee benefits expense includes employee bonus of **AED 38.0 million** (2016: AED 41.9 million). The number of employees at 31 December 2017 was **747** including **602** employed by the Bank of which **255** were UAE nationals [2016: 730 including 587 employed by the Bank of which 245 were UAE nationals].

25. Social contributions

The social contributions made during the year to various beneficiaries amount to **AED 1.3 million** (2016: AED 1.0 million).

26. Earnings per share

The calculation of earnings per share is based on net profit of **AED 401.5 million** (2016: AED 389.9 million), after deduction of **AED 70.5 million** (2016: AED 70.6 million) of coupon payment on Tier 1 capital notes, divided by the weighted average number of shares of **1,366.5 million** (2016: 1,366.5 million shares after adjusting for bonus shares) outstanding during the year.

27. Related parties

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

	2017 AED'000	2016 AED'000
Statement of financial position items		
Loans and advances and Islamic financing receivables	1,903,745	2,105,129
Customer deposits and Islamic customer deposits	5,694,124	4,777,890
Investments and Islamic instruments	63,800	56,552
Acceptances	11,732	36,949
Tier 1 capital notes	690,000	690,000
Statement of changes in equity items		
Tier 1 capital notes coupon paid	47,995	48,088
Contingent liabilities		
Letters of credit	88,636	109,407
Financial guarantees and other direct credit substitutes	89,490	66,080
Transaction related contingencies	184,154	178,075
Statement of income items		
Interest income and income from Islamic financing and investment activities	69,007	65,492
Interest expense and distribution to Islamic depositors	125,681	100,627
Other income	8,011	10,729
Key management compensation		
Salaries and other short-term benefits	20,902	21,686
Employee end of service benefits	561	680
Directors' annual remuneration	3,000	3,000

No provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables given to related parties (2016: Nil).

The loans and advances and Islamic financing receivables given to related parties amounting to **AED 1,903.7 million** (2016: AED 2,105.1 million) have been secured against collateral amounting to **AED 1,452.4 million** (2016: AED 1,444.7 million).

In accordance with the requirements of notice no. 226 / 2015 dated 26 August 2015 and issued by the UAE Central Bank, the Group has complied with article (91) of Union Law No. (10) of 1980.

28. Cash and cash equivalents

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

	2017 AED'000	2016 AED'000
Cash on hand	346,101	281,321
Balances with the UAE Central Bank (note 28.1)	5,296,327	5,382,278
Due from banks with less than three months maturity	639,976	889,347
	6,282,404	**6,552,946**
Due to banks with less than three months maturity	(432,565)	(637,620)
	5,849,839	**5,915,326**

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

29. Segmental reporting

The Group uses business segments for presenting its segment information in line with the Group's management and internal reporting structure. The Group'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 Technology, Product Development, Legal, Credit and Internal Audit. The shared services cost is allocated to business segments based on transaction and relevant drivers.

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

2017 (AED'000)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	**Consolidated**
Segment revenue	769,631	264,336	112,558	232,016	**1,378,541**
Segment operating cost	(229,757)	(124,641)	(83,051)	(27,480)	**(464,930)**
Segment operating profit	**539,874**	**139,695**	**29,507**	**204,536**	**913,611**
Net impairment losses	(296,877)	(125,727)	(19,270)	206	**(441,668)**
Profit	**242,997**	**13,968**	**10,237**	**204,742**	**471,943**
Segment assets	21,219,850	3,229,924	2,394,208	9,812,394	**36,656,376**
Segment liabilities	24,298,793	3,116,875	2,746,039	1,604,031	**31,765,738**
Capital expenditure	-	-	-	38,359	**38,359**

2016 (AED'000)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	**Consolidated**
Segment revenue	721,225	255,685	100,660	241,537	**1,319,107**
Segment operating cost	(225,203)	(126,648)	(71,887)	(29,404)	**(453,142)**
Segment operating profit	**496,022**	**129,037**	**28,773**	**212,133**	**865,965**
Net impairment losses	(267,344)	(106,186)	(33,869)	1,877	**(405,522)**
Profit / (loss)	**228,678**	**22,851**	**(5,096)**	**214,010**	**460,443**
Segment assets	20,957,739	2,946,523	1,859,720	9,904,137	**35,668,119**
Segment liabilities	23,971,837	2,910,693	2,110,570	2,095,963	**31,089,063**
Capital expenditure	-	-	-	31,997	**31,997**

30. Comparative figures

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