ANNUAL REPORT

2019

YOUR PARTNER IN SUCCESS

nbf

In good hands

H.H. SHEIKH KHALIFA BIN ZAYED AL NAHYAN

PRESIDENT OF THE UNITED ARAB EMIRATES

H.H. SHEIKH MOHAMMED BIN RASHID AL MAKTOUM

VICE PRESIDENT AND PRIME MINISTER OF THE UNITED ARAB EMIRATES
AND RULER OF DUBAI

H.H. SHEIKH HAMAD BIN MOHAMMED AL SHARQI

MEMBER OF THE SUPREME COUNCIL
AND RULER OF FUJAIRAH

YEAR OF TOLERANCE

To celebrate the exceptional diversity of the United Arab Emirates, 2019 was declared the Year of Tolerance. Positioning the country as a global centre for tolerance, acceptance and coexistence, the Year of Tolerance also influenced our business objectives and this year's organisational CSR initiatives and projects. This reinforced the sense of multiculturalism within our business and in the actions of our staff.

عام التسامح
YEAR OF TOLERANCE

At NBF, we are shaped by our cultural heritage and the ever-growing diversity of our team. We took pride in playing an active role in the development of local communities in 2019 and will continue to do so in the years to come.

> **"Tolerance and forgiveness are a duty. If the Almighty Creator forgives and we as human beings are His creation, then shall we not forgive?**
>
> **The late Sheikh Zayed Bin Sultan Al Nahyan**

> **"We want the UAE to be the global reference point for a tolerant culture, via its policies, laws and practices**
>
> **His Highness Sheikh Mohammed bin Rashid Al Maktoum**
> Vice President and Prime Minister of the UAE and Ruler of Dubai

The Ghaf tree was selected as a symbol of the Year of Tolerance

ABOUT NBF

As one of the UAE's most well-respected banks, National Bank of Fujairah is renowned for its award-winning services, its unrivalled understanding of local markets and an unwavering commitment to its customers. As the UAE's bank of choice for over 37 years, it just makes good business sense to bank with National Bank of Fujairah.

The National Bank of Fujairah is a long-established brand with a reputation for excellence in the areas of corporate and commercial banking, trade finance and treasury. In recent years, NBF has also expanded its customer centric offering to include a comprehensive range of personal banking products and Shari'a compliant services.

Established in 1982, NBF celebrates its heritage by being a proactive member of the local community and by playing an active role in the development of a progressive and inclusive culture.

We strongly believe in cultivating rewarding relationships with our customers by providing them with best-in-class financial services, innovation and certainty in execution. Similarly, we continuously strive towards the creation of a stimulating work environment that allows our staff to pursue their personal and professional development.

Our commitment to the economic development of Fujairah and the wider UAE is evident through our support of local industries, ranging from oil and shipping to services, manufacturing, construction, education and healthcare. Through our segmented focus we have developed a solid track record of strong cultural heritage, deep market insight and an unwavering focus on service and innovation.

OUR NETWORK

HEAD OFFICE

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

FUJAIRAH

Fujairah Branch

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

Dibba Branch

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

Fujairah City Centre Branch

G012A, Fujairah City Centre
PO Box 887, Fujairah
Tel: 600 565551
Fax: +971 9 223 7550

Masafi Branch

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

Qidfah Branch

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

Tawian Branch

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

Fujairah Free Zone Branch

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

Fujairah Court Branch

Main Entrance
Fujairah Court House
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

Dubai South (EBSU)

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

ABU DHABI

Abu Dhabi Branch

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

Mussafah Branch

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

Al Reef (EBSU)

Shop #10, Al Reef Downtown
PO Box 131885
Tel: 600 565551

Al Ain Branch

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

SHARJAH

Sharjah Branch

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

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

Corporate/ Representative Offices

NBF Diamond Financing Office

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

NBF Corporate Banking Office

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

Antwerp Representative Office

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

CONTENTS

SECTION 1

STRATEGIC REPORT

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

WHO WE ARE

NBF has a proud 37-year history of providing outstanding service to our customers and generating value for wider society.

OUR VISION

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

OUR MISSION

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

OUR VALUES

P

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

R

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

I

INTEGRITY
Be honest and transparent

D

DEDICATION TO TEAM WORK
Work towards common goals. Build effective teams across organisational boundaries

E

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

NBF AT A GLANCE

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

1982
Established

19
Branches

3
Subsidiaries

35,600
Customers

41%
FEMALE WORKFORCE

41
Nationalities

790
Employees

42%
EMIRATISATION RATIO

7
Regulatory relationships

BBB+/A-
Credit rating

AED 1.71bn
Operating Income
(2018: AED 1.57bn)

AED 1.15bn
Operating Profit
(2018: AED 1.05bn)

AED 552.2m
Net Profit
(2018: AED 615.3m)

KEY PERFORMANCE METRICS

9.6%
Return on average equity
(2018: 12.3%)

1.3%
Return on average assets
(2018: 1.6%)

13.5%
Dividend to share capital
(2018: 20%)

YEAR-ON-YEAR ACCOLADES

2019

Best Corporate Bank – Banker Middle East Industry Awards

Best SME Bank – Banker Middle East Industry Awards

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

Best Treasury Management – Banker Middle East Product Awards

Best SME Internet Banking Service – Banker Middle East Product Awards

Best SME Loan – Banker Middle East Product Awards

Best SME Trade Finance – Banker Middle East Product Awards

Best Ladies Proposition – Banker Middle East Product Awards

Best Premium Banking Services – Banker Middle East Product Awards

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

Best New Islamic Window UAE – Islamic Business & Finance Awards

International Employee Engagement Award – International Business Excellence Awards 2019

Overall Experience Award – The Gulf Employee Experience Awards

Employee Engagement and Happiness Award – The Gulf Employee Experience Awards

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

Best Emiratisation Infinitive of the Year Award – Tawdheef

Dubai Chamber CSR label – Dubai Chamber of Commerce and Industry

2018

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

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

Best Treasury Management – Banker Middle East UAE Product Awards

Best SME Trade Finance Offering – Banker Middle East UAE Awards

Best Emirati Ladies Proposition – Banker Middle East UAE Awards

Best Priority Banking Service – Banker Middle East UAE Awards

Best Islamic Window UAE – Islamic Business & Finance, CPI

Best Innovator – **Commercial Banking** TahawulTech Future Enterprise Awards 2018

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

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

Best Nationalization Program – Gulf Employee Experience Awards 2018

HR Team of the Year – Gulf Employee Experience Awards 2018

Best Employee Experience – Gulf Employee Experience Awards 2018

HR Team of the Year – MENA HR Excellence Awards

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

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

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

2017

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

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

Best Corporate Advisory Service – Banker Middle East UAE Product Awards

Best Treasury Management – Banker Middle East UAE Product Awards

Best SME Internet Banking Service – Banker Middle East UAE Awards

Best SME Trade Finance Offering – Banker Middle East UAE Awards

Best Islamic Window UAE – Islamic Business and Finance

Shari'a compliant window 2017 – The Banker's Islamic Bank of the Year Awards

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

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

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

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

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

HR Team of the Year – Gulf Employee Experience Awards

Korn Ferry Employee Engagement Awards – Winner Middle East 2017

HR Team of the Year – MENA HR Excellence Awards

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

Finalist Daman Award for Corporate Health and Wellness Initiative 2017

2016

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

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

Best New Islamic Window UAE – Islamic Business and Finance Awards

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

Best Corporate Advisory Service – Banker Middle East UAE Product Awards

Best Cash Management – Banker Middle East UAE Product Awards

Best Treasury Management – Banker Middle East UAE Product Awards

Best Innovation in Employee Engagement – HR Excellence Awards

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

Best Employer Brand on LinkedIn – LinkedIn MENA Talent Awards

2015

Best Corporate Bank UAE – Banker Middle East UAE Industry Awards

Best Commercial Bank UAE – Banker Middle East UAE Industry Awards

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

Best Local Bank UAE – EMEA Finance Middle East Banking Awards

Best Corporate Advisory Service – Banker Middle East UAE Product Awards

Best SME Customer Service – Banker Middle East UAE Product Awards

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

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

Best Treasury Management – Banker Middle East UAE Product Awards

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

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

MESSAGE FROM THE CHAIRMAN

The UAE economy and the banking sector in particular demonstrated a high level of resilience in 2019, despite the challenging environment across global markets. To ensure NBF continues to remain financially strong during these times, the bank successfully completed its inaugural Additional Tier 1 capital issuance of USD350 million in October 2019, which strengthened the bank's capital ratios.

The UAE remained the most competitive economy in the MENA region, with the government continuing to strengthen the country's positioning among the world's top business-friendly nations. A key strength of our economy resides in the quality of its enabling environment, benefiting from sound infrastructure while maintaining one of the highest levels of technological transformation in the world.

In 2019 our operating income experienced growth of 8.5 percent at AED1.7 billion, driven by continued development of the bank's core business, with good volume growth, enhanced balance sheet management and effective pricing strategies seeking to mitigate the margin compression across the global economy. Operating expenses increased by 7.9 percent, reflecting NBF's investments in digital initiatives and infrastructure in order to improve customer service and competitiveness in line with changing market demands. Nevertheless, the bank's cost-to-income ratio improved to 33.0 percent compared with 33.2 percent in 2018.

NBF achieved a strong operating profit of AED1.15 billion, up 8.9 percent from AED1.05 billion in 2018. The strong operating performance supported NBF's prudent loan loss provisioning policy in response to the continued slow-down and credit stress in the market. NBF secured net impairment provisions of AED593.0 million compared with AED436.8 million in 2018.

NBF posted a net profit of AED552.2 million compared with AED615.3 million in 2018, representing a decline of 10.3 percent after absorbing the elevated level of provisions. NBF's total comprehensive income for the year was AED611.5 million, up 4.5 percent compared with AED585.4 million in 2018. Reflecting a strong 2019 performance and the current market conditions, I, on behalf of the Board of Directors, recommended a distribution of profits of 13.5 percent (2018: 20 percent) in the form of cash dividends of 10.0 percent (2018: 7.5 percent) and bonus shares of 3.5 percent (2018: 12.5 percent) of paid-up capital.

We have always been committed towards the engagement and upskilling of our people and, in particular, our Emirati staff. Our efforts towards Emiratisation in 2019 were recognized with the winning of the Best Emiratisation of the Year Award at Tawdheef. Through initiatives like our Ramadan Charity Drive, partnership with the Fujairah Welfare Association, and the Fujairah Run, NBF continued to make a positive contribution to the community.

Finally, I would like to thank NBF's Board of Directors, members of the Management Committee and employees for their continuous contribution and efforts towards our success in 2019. In addition, I thank our customers and shareholders for their continued support and trust in the bank. We look forward to a fruitful year ahead, and indeed, a successful new decade.

Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman
09 February 2020

ECONOMIC OVERVIEW

The pace of global economic activity showed some signs of recovery throughout 2019 following a difficult 2018.

Momentum in manufacturing activity slowed, creating challenging conditions, while rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation. More generally, these tensions have taken a toll on business confidence, investment decisions and global trade. A notable shift towards increased monetary policy accommodation — through both action and communication — has cushioned the impact of these tensions on financial market sentiment and activity, while a generally resilient service sector has supported employment growth.

As we enter a new decade, the global outlook remains somewhat precarious, with a number of challenges ahead to navigate.

Closer to home, however, the UAE economy is starting to show signs of recovery following the 2015–16 slowdown caused by a decline in oil prices. Growth momentum is expected to strengthen in the next few years, enabled by:

- increased investment and private sector credit
- improved prospects in trading partners
- a boost to tourism from Expo 2020

Non-oil growth was expected to rise to 3.9 percent in 2019 and had a positive knock-on effect for the private sector. Inflation remained low, notwithstanding the introduction of value-added tax (VAT) the previous year. Although non-performing loans rose during the year, banks overall remained liquid and well capitalised.

According to The Economist Intelligence Unit, the UAE will remain stable in the coming year, providing a solid environment in which businesses can thrive. Real GDP growth will pick-up in 2020, bolstered by the hosting of Expo 2020, anticipated higher oil prices, and the hosting of a number of internationally significant events, including the 2020 G20 Riyadh summit.

Economic diversification efforts such as boosting tourism and improving the business environment will be major policy priorities. However, government revenue will remain largely dependent on the hydrocarbons sector, where volatile oil prices represent a degree of uncertainty for the UAE economy. Focus Economics panelists expect GDP to increase 2.4 percent in 2020, and 2.5 percent in 2021.

NBF STRATEGY 2019 AND INITIATIVES AND ACTIVATIONS

At the beginning of the year, NBF mapped out its strategic goals for 2019. Those goals covered the principal themes of digitalisation, customer experience, employee engagement, sustainability and the support of local communities.

During the year the bank also delivered a number of key initiatives and strategic developments, participated in leading industry events, and launched innovative products and services in execution of its strategic priorities.

a. Strengthening our base

NBF successfully completed its first ever public issuance of Basel III compliant Additional Tier 1 (AT1) capital securities of AED1,285.6 million. It also completed the early buy-back of existing privately placed AT1 capital notes of AED500 million. This resulted in a strengthening of the bank's structure and quality of capital.

The bank continued to grow its core business through a clear focus on quality and prudent credit underwriting. It also invested in the diversification of revenue streams through the provision of customer investment propositions, the development of its Corporate Finance business and the investment in emerging business opportunities within the digital space.

The bank's enhanced focus on asset and liability management produced good results and helped optimise returns and margins in a declining interest rate environment.

b. Digitisation

The digital transformation of NBF has focused on three main areas: customer service, operational efficiency and business development. The bank has already embarked upon multiple initiatives within these areas, producing great results.

It has digitised its platforms via the use of Business Process Management (BPM) solutions and robotic technology. At the same time, it has also invested in data management and advanced analytics to reflect data-driven predictive analysis in proactively managing its business.

NBF has also engaged with external digital players to expand its business and customer-focused digital platforms and partnered with a number of fintech incubators. This approach has provided a better understanding of the benefits of new technologies and how they may be employed in new and exceptional propositions. It has also engaged with several business platforms, including Accelerate SME, TradelX and an e-dirham pilot, to develop new business opportunities and revenue streams.

Given our commitment to developing the local economy and supporting SMEs, NBF entered into a partnership with Emirates Development Bank (EDB) for the 'SME Credit Guarantee Fund Scheme', which provides strategic financing solutions to the SME ecosystem.

c. Customer experience

Throughout the year NBF endeavoured to improve customer experience by completing its comprehensive annual customer survey and investing in customer sentiment analysis. The latter enabled meaningful improvements to customer experience through better customer insights and understanding.

Further initiatives included making NBF as accessible as possible to all customers. That meant re-evaluating the branch location strategy and relocating NBF's Al Ain and Sharjah branches to prominent, convenient locations. A new electronic banking serviced unit at Dubai South was also opened – comfortably ahead of Expo 2020.

d. Employee engagement

At NBF we take pride in developing and nurturing our team. We seek to maintain a stimulating work environment, to upskill our talent in line with customer demands, and to develop Emirati staff for critical roles.

In our 2019 staff satisfaction survey, overall employee engagement increased from 75 percent to 77 percent, placing

NBF in the top quartile of all organisations globally. The bank also participated in the UAE Career Fairs, welcomed a cohort of 25 young people into its annual Management Training Program (MTP), and created an award for Emirati Women's Day. The latter evidences NBF's long-term commitment to equality in the workplace.

During UAE Innovation Month, the bank hosted its internal innovation contest, rewarding eight winners for their outstanding ideas. The bank also launched its new cloud based Human Resources system, which supports people in sharing knowledge, experience and best practices efficiently.

Our efforts in employee engagement were duly recognised, with NBF receiving a number of awards, including the 'International Employee Engagement Award' at the International Business Excellence Awards 2019, and the 'Overall Experience Award', 'Employee Engagement and Happiness Award', and 'Employee Insight and HR Metrics Award' at the Gulf Employee Experience Awards.

e. Supporting local communities and sustainability

NBF's operations and strategies are underpinned by a commitment to the communities and environment in which it operates. That means promoting sustainability to preserve the future of the planet. As such, the bank conducted a number of initiatives throughout 2019 to promote the long-standing importance of environmentally friendly business practices.

It also continued to make a positive impact on local communities. A number of internal and external projects were successfully conducted, including the Ramadan Charity Drive and the NBF Fujairah Run. It also conducted a series of educational sessions at a number of schools in Dubai, educating youth on the value of money and the importance of saving. These sessions were held as part of our NBF CSR campaign – 'Learn & Save'.

As part of Cybersecurity and Fraud Prevention Awareness Month, the NBF Risk team conducted a 'Stop, Think and Connect' campaign to help educate our customers, staff and the general public to stay safe and be more secure online.

For further details, refer to the NBF CSR Report 2019.

SHAREHOLDER RETURNS

It is important that we consistently deliver value to shareholders. We can report that we delivered an average return on equity of close to 10 percent in 2019. Earnings per share were AED0.27, compared to AED0.29 in 2018. Consequently, I am pleased to recommend an increase in our cash dividend to 10.0 percent (2018: 7.5 percent) and bonus shares of 3.5 percent (2018: 12.5 percent) bringing total dividend to 13.5 percent (2018: 20 percent) for the year.

AED

10%

CASH DIVIDEND

AED

3.5%

BONUS SHARES

NBF 2020 OUTLOOK

Our outlook for 2020 is cautiously optimistic. We are well positioned to capitalise on key opportunities as we put our customers first, continue to focus on delivering an excellent customer experience, spearhead digital innovation and continue to meet compliance and regulatory standards.

In 2020, we will continue to focus on the following five building blocks:

1.Customer partnership and exceptional service

We will continue to provide our customers with an exceptionally high quality of financial services and further develop a strong sense of partnership through service and innovation. That will mean delivering an excellent customer experience via a customer centric business model that is backed by technological and digital enhancement. It will also require a sustained effort to seek and reflect customer feedback in shaping our business model and offerings.

2. Business focus

NBF will continue its traditional business focus with prudent credit underwriting standards. It will also look to diversify its revenue streams by developing new business and market opportunities. The bank is exploring new markets for the distribution of risk and is supporting customer trade flows by aligning risk appetite with key trade corridors. A number of digital platforms are being developed to service the business needs of customers, while investment propositions have been made available to serve the needs for high net worth and priority customers.

3. Financial stability

AED AED

NBF will continue to maintain its financial stability and its competitive position, protect the interests of stakeholders and achieve long-term sustainable returns. The bank will also continue to improve the efficiency of the organisation by leveraging investments in new technologies and re-engineering end-to-end processes.

4. Our team

NBF is considered a leader in employee engagement in the banking sector, which has resulted in quality client relationships. As we move forward, the bank will continue to further strengthen its team. The bank will also continue to develop the next generation of Emirati professionals, fast tracking their career development and building a high performing organisation with a continued focus on Emiratisation.

5. NBF and the community

NBF will maintain its focus on promoting and supporting environmental, social and governance-friendly activities and businesses as part of its sustainability and corporate social responsibility initiatives.

DIRECTORS' REPORT

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

STATEMENT FROM THE DEPUTY CHAIRMAN

NBF's performance and commitment to its customers was recognized by the numerous awards and accolades collected throughout the year. These included the Best Corporate Bank and Best SME Bank at the prestigious Banker Middle East Industry Awards. To offer the very best service to our customers, requires an equally impressive team, and we take great pride in winning a number of awards that reflect our focus on employee engagement and job satisfaction. These included taking home the International Employee Engagement Award at the International Business Excellence Awards and the Employee Engagement and Happiness Award at The Gulf Employee Experience Awards.

This year, the bank continued to focus on Digitisation and Customer Experience as key drivers of new products and services, initiatives and partnerships. An investment product proposition has been launched for retail customers and the bank invested in its cloud infrastructure, going live with its new cloud based Human Resources System.

The credit process of the bank is being re-engineered to benefit from digitalisation and growing availibility of quality data with a goal of achieving significant efficiency, speed of decision making and greater focus on credit risk management. NBF's treasury has implemented an Intra-day Liquidity Management System during the year for effective liquidity management and is investing in an electronic trading platform to allow its customers to execute trades for online.

Our community focussed initiative 'Ajyal' launched in 2018, continued to progress well this year. Ajyal is a tailor-made banking service aimed at supporting the financial needs and aspirations of the young Emirati generation. Under this initiative, the bank carried out multiple events featuring financial tips and uncovered the ways in which Ajyal can help young Emiratis achieve their future-oriented goals and aspirations. I am proud to confirm that the number of customers exceeded 1000 in the first full year of launch.

On the results front, I am very pleased to report that NBF's total comprehensive income for the year was AED611.5 million up 4.5 percent compared to AED585.4 million in 2018 on the back of improvement in fair value of investments designated as fair value through other comprehensive income (FVOCI) by AED59.3 million in 2019. NBF delivered a resilient performance in 2019, achieving an annual net profit of AED552.2 million (2018: AED615.3 million) and total assets in excess of AED42.8 billion (2018: AED39.7 billion).

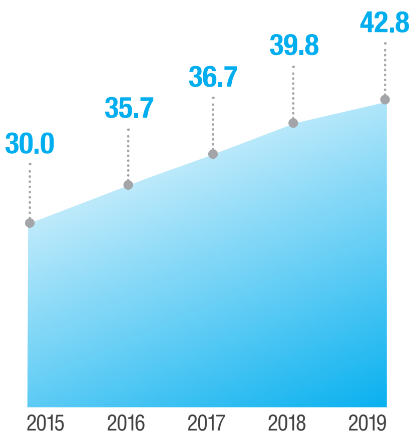
Our balance sheet remains solid with healthy capital and liquidity ratios and stable credit indicators, and we are confident that our prudent business model shall continue to deliver a solid performance through the careful management of the opportunities and challenges that will present themselves during 2020. I would like to express my gratitude to our Chairman, His Highness Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi, the Board of Directors and the Senior Management Team, as well as our entire staff for all their contributions and hard work as we conclude another successful year.

Easa Saleh Al Gurg, KCVO, CBE
Deputy Chairman
09 February 2020

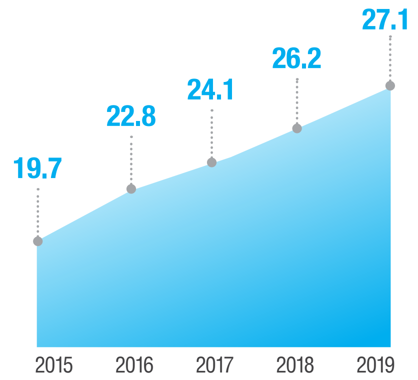
FIVE-YEAR PERFORMANCE SCORECARD

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

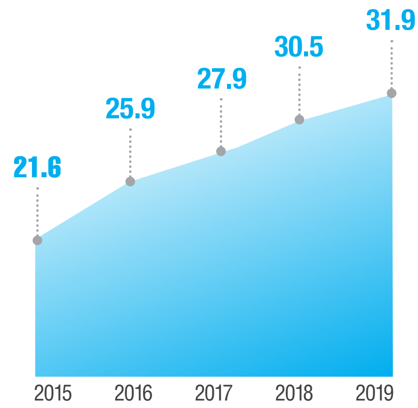
Assets (AED Billion)



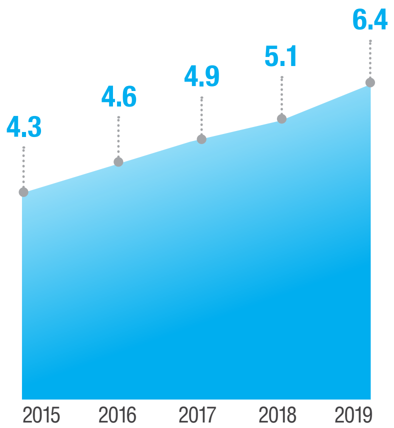
Loans and Advances and Islamic Financing Receivables (AED Billion)



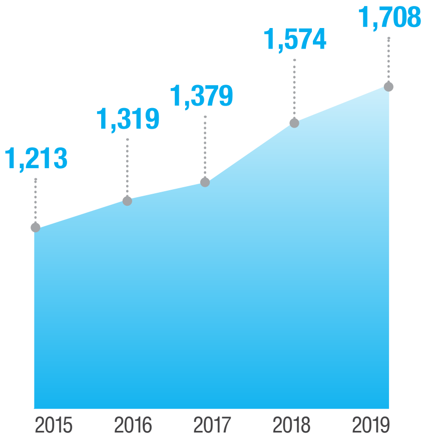
Customer Deposits and Islamic Customer Deposits (AED Billion)



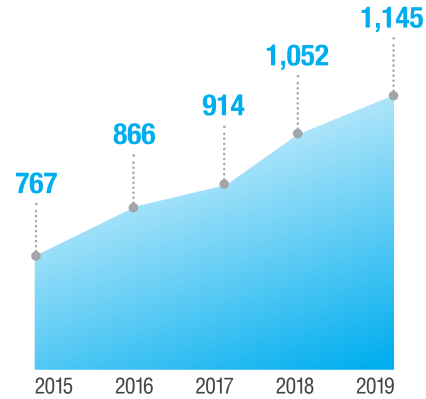
Shareholders' Equity (AED Billion)



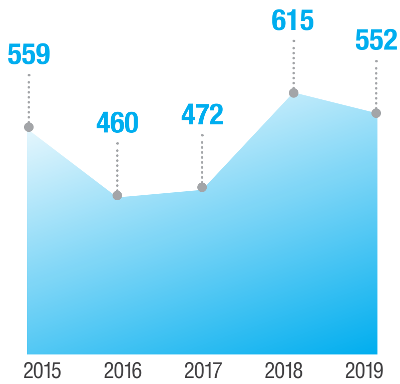
Operating Income (AED Million)



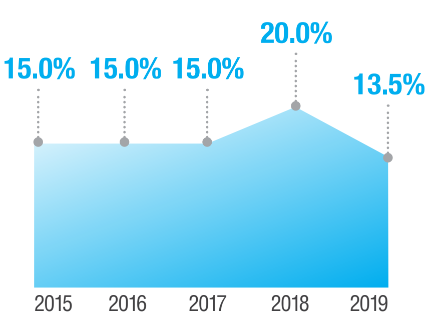
Operating Profit (AED Million)



Net Profit (AED Million)



Dividend to Share Capital (%)



FINANCIAL PERFORMANCE

In 2019, NBF achieved strong results thanks to its strong customer focus, sound risk management and robust operating platform and successful delivery of key initiatives and programs.

	2019 (AED Million)	Growth (%)
Operating Profit	1,145.2	8.8%
Operating Income	1,708.1	8.5%
Net interest income and net income from Islamic financing and investment activities	1,152.4	6.0%
Foreign exchange and derivatives income	151.2	10.1%
Income from investments and Islamic instruments	10.8	315.3%
Net fees and commission income	342.4	10.9%
Operating expense	562.9	7.9%
Net impairment losses	593.0	35.8%
Profit for the year	552.2	-10.3%
Loans and advances and Islamic financing receivables	27,095.5	3.4%
Customer deposits and Islamic customer deposits	31,949.7	4.8%
Total assets	42,805.3	7.6%
Recoveries	146.6	0.3%
Cost-to-income ratio	33.0%	-0.2%
Total provisions coverage ratio	107.3%	5.3%
Non-performing loans ratio	5.4%	0.3%
Return on average equity	9.6%	-2.7%
Return on average assets	1.3%	-0.3%

RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE

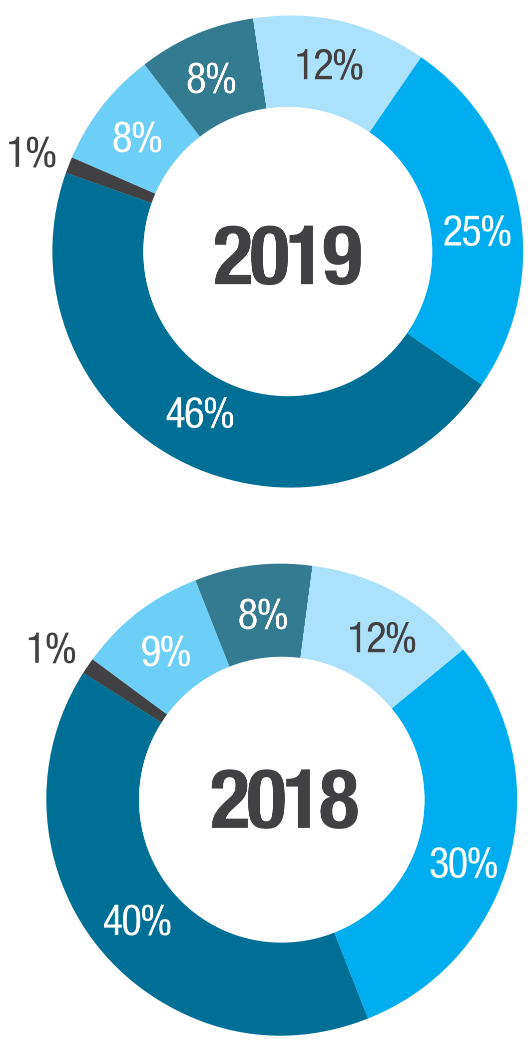
Effective risk management, robust internal controls and best-practice compliance focus are an integral part of NBF's strategy and business discipline.

We constantly monitor sources of financial and non-financial risk in order to respond quickly and our stakeholders' interests. We operate to the highest protocols of international risk management best practices and seek constantly to expand our customer base in order to reduce systemic credit concentrations. Our approach to risk is specific to the various products we offer and also considers the markets and the sectors in which our customers operate.

Loans and Advances

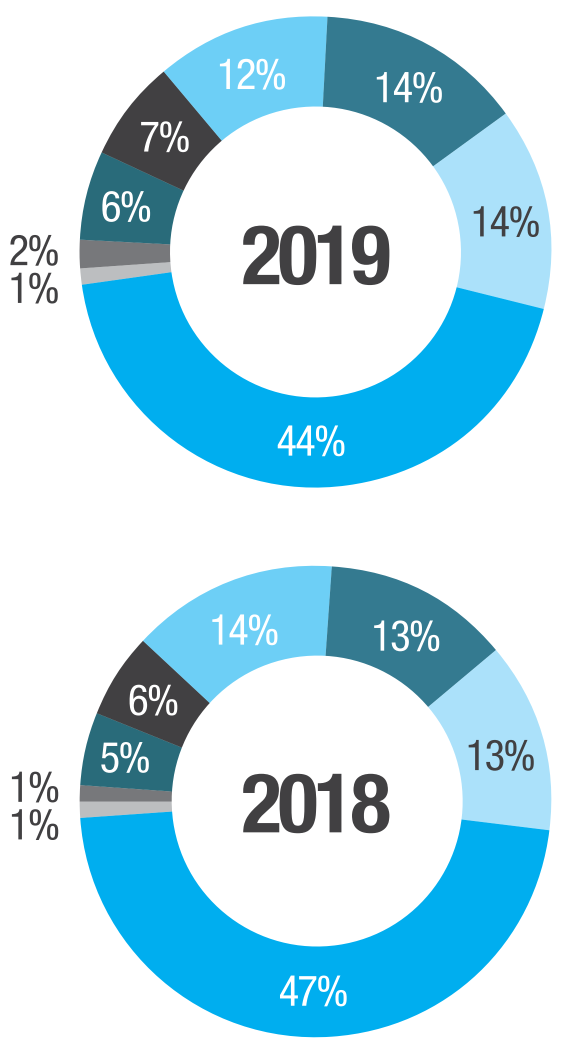
By Product

- Overdrafts
- Loan against trust receipts
- Term loans - Short term
- Term loans - Medium & long term
- Bills drawn under letters of credit
- Bills discounted



By Sector

- Manufacturing
- Service Industries
- Real Estate
- Trade
- Government
- Financial Institutions
- Individuals
- Construction



Risk Management, Internal Control and Compliance functions have progressively embedded new capabilities and processes across the Bank in 2019. Operational Risk has commenced testing a new program of key controls and implemented improved Business Continuity and Crisis Management capabilities. Compliance has successfully rolled out a model that embeds Compliance staff in frontline business with a reporting line into the central compliance team. Information Security has strengthened an appropriate strategic model in co-operation with the Information Technology function to allow it to focus on improvement in Information Security standards while managing tactical issues effectively.

The Bank's strategic goal of developing a competitive digital capability requires it to excel in the manner in which critical data is captured, stored and governed. This focus is intended to reinforce the use of data to guide decision making across the Bank and enhance customer service and fulfillment. The bank has engaged external experts to review its capabilities in these areas with a view to strengthen the Data Governance framework in line with best practice to deliver its strategic objectives.

The UAE Central Bank issued Corporate Governance Regulations in 2019 with an implementation time period of three years. NBF is largely compliant with the new regulations and the Board approved implementation plan has been submitted to the Central Bank.

NBF is well poised to navigate through the current credit stress in the market on the back of strong capital adequacy, a solid liquidity position, competitive operating earnings and an enhanced focus on credit risk management. The bank will continue to seek quality business opportunities for steady business growth with selective increased risk appetite for non-resident assets whilst it seeks to diversify risk, improve credit risk management and asset quality to maintain financial stability and long term sustainable results. Encouragingly, the bank's aggregate stage 2 and 3 exposures improved from 14.5 percent in 2018 to 12.3 percent in 2019 whilst the bank's impairment losses and net profit for the year were impacted by one exceptional situation that faced problems towards the end of 2019.

NBF is predominantly deposit funded and the ratio of deposits to total assets stood at	Ratio of advances to deposits ratio stood at	Our balance sheet was well diversified and our ratio of liquid assets remained one of the highest in the industry
74.6 percent (2019)	84.8 percent (2019)	21.7 percent (2019)
76.6 percent (2018)	86.0 percent (2018)	21.9 percent (2018)

NBF continues to monitor its liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as key measures for effective liquidity management. At the end of 2019, the bank's LCR stood at 440 percent (2018: 319 percent) and NSFR at 106 percent (2018: 105 percent).

NBF maintains prudent market risk limits and its trades are predominantly executed to support customer activities. NBF's debt based investment portfolio is managed with credit quality and liquidity as the core considerations. 82.9 percent of the portfolio is rated BBB+ and above, compared to 83.2 per cent in 2018. NBF, as part of its risk and revenue diversification strategy, invested in equity portfolios which, at 2019 year end, stood at AED109.7 million (2018: AED110.9 million) and contributed AED42.6 million to total comprehensive income (2018: total comprehensive loss of AED30.1 million). In a declining rate environment, NBF managed its interest rate risk effectively through proactive assets and liabilities management and maintained its interest margin at 2.7 percent (2018: 2.8 percent) whilst the US treasuries rate cuts during 2019 aggregated to 100 basis points.

In 2019, NBF successfully completed its board approved capital plan by issuing Basel III compliant AT1 capital securities of AED1,285.6 million and buying back previously issued AT1 capital notes of AED500 million. Accordingly, the bank's capital adequacy ratio strengthened to 17.8 percent (CET1 ratio 12.9 percent and Tier 1 ratio 16.6 percent) from 15.2 per cent (CET1 ratio 12.6 percent and Tier 1 ratio 14.1 percent), in 2018.

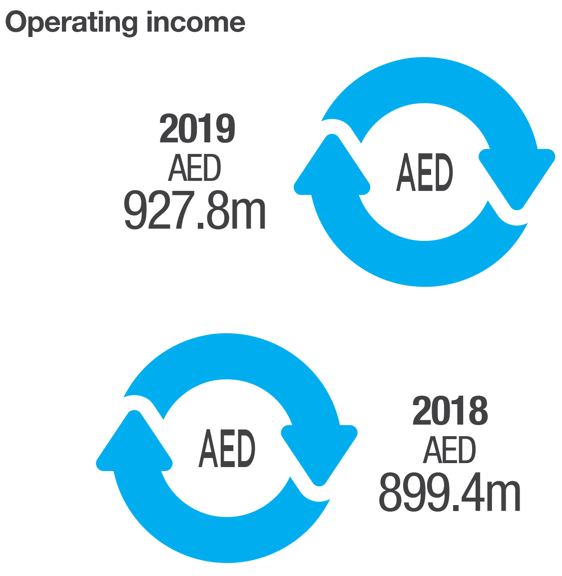
NBF is committed to the best in class risk management, internal control and compliance standards and will continue to invest and improve progressively commensurate to the bank's risk profile and the evolving operating environment.

NBF'S SECTOR SPECIFIC EXPERTISE DIFFERENTIATES US FROM THE CROWD

Loans & Advances (Industry) 31 December 2019 % of total assets	Sector	Loans & Advances (NBF) 31 December 2019 % of total assets
9.4%	TRADE	34.5%
5.5%	MANUFACTURING	12.7%
25.0%	PERSONAL LOANS	12.4%
18.5%	CONSTRUCTION & REAL ESTATE	11.1%
5.1%	TRANSPORT, STORAGE & COMMUNICATIONS	4.8%
14.9%	GOVERNMENT	2.0%
9.6%	FINANCIAL INSTITUTIONS (EXCLUDING BANKS)	1.0%
1.1%	MINING & QUARRYING	1.0%
0.1%	AGRICULTURE	0.5%
1.7%	ELECTRICITY, GAS & WATER	0.2%
9.1%	OTHERS	19.8%

SEGMENT PERFORMANCE

CORPORATE AND INSTITUTIONAL BANKING



NBF is highly regarded for its customer-focused corporate and institutional banking expertise. In 2019, NBF's corporate and institutional banking segments represented 54.3 percent of overall group operating income, compared to 57.1 percent in 2018. Operating income stood at AED927.8 million, compared to AED899.4 million a year previously. Additionally, assets reached AED23.9 billion, an increase of 4.0 percent on 2018, while liabilities increased by 3.0 percent to AED28.2 billion. This growth reflected our strategy of diversifying sources of business. Operating profit increased by 1.2 percent to AED648.7 million. Segment profit was impacted by elevated credit stress in the market and impairment losses, and saw a decrease of 40.8 percent to AED171.3 million. A number of initiatives were undertaken which contributed to underlying progress:

- We partnered with the Tawazun Strategic Development Fund through the roll out of Venture Debt programs to small & medium enterprises (SMEs) operating within Defense & Security Sector in the UAE.
- Our continuing focus on cash management products and services helped in increasing average current and saving account (CASA) balance proportion to total deposits to 31.4 percent, improving interest margin.
- We enhanced the focus on capital efficient products and grew the treasury business to better fulfil its customers' needs.
- NBF Elham, our proposition for Emirati women entrepreneurs, has been gaining momentum and we are seeing growing interest in this business segment.

BUSINESS BANKING

NBF's business banking operations performed strongly in 2019, contributing 18.4 percent of overall group operating income. Operating income increased 9.5 percent to AED314.8 million. The segment's assets totaled AED3.5 billion in 2019, up 5.5 percent from 2018. Liabilities rose to AED3.6 billion from AED3.3 billion a year previously, thanks to enhanced focus on cash management and product cross-selling. Credit losses increased by 79.6 percent to AED87.9 million in 2019, from AED48.9 million in 2018 principally on account of IFRS 9 model changes. As a result, segment profit declined 15.8 percent to AED89.5 million from AED106.3 million in 2018.

RETAIL BANKING

We continued our focus on expanding our retail business across the UAE in 2019. The segment achieved annual operating income growth of 0.7 percent, to AED138.0 million. Shari'a – compliant retail banking products and services also helped to grow our customer base. Costs increased by 11.6 percent to AED110.5 million, reflecting an enhanced focus on sales, an expanded branch network and investments in digitalisation. The credit losses for the year improved by 36.3 percent, to AED23.0 million from AED36.2 million in 2018. The segment reported a profit of AED4.4 million compared to AED1.8 million in 2018. Retail banking assets grew by 3.9 percent to AED3.0 billion and liabilities were maintained at AED2.9 billion.

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

Treasury continued to perform strongly in 2019. Foreign exchange and derivatives income increased by 10.1percent to a record level of AED151.2 million, compared to AED137.3 million in 2018. Enhanced focus on asset and liability management during the year resulted in net interest and net income from Islamic financing and investment activities increasing by 6.0 percent. Treasury and ALM contributed 52.0 percent to overall group profit, compared to 35.4 percent in 2018. Our investment portfolio, principally representing investment grade debt securities, increased by 24.1 percent to AED3.4 billion. Investment income for the year increased to AED10.8 million from AED5.0 million loss last year. In addition, the fair value of the fair value through other comprehensive income investment portfolio significantly increased by AED59.3 million in 2019.

NBF ISLAMIC

NBF Islamic grew progressively in 2019, constituting 12.0 percent of overall group assets and 14.4 percent of group deposits. NBF Islamic accounted for 7.4 percent and 13.6 percent of overall operating income and profit, respectively. Over the course of the year, NBF Islamic grew its asset base by 11.9 percent compared to the previous year, to AED5.1 billion. Operating income increased 9.4 percent to AED125.8 million. Total Islamic financing receivables and Islamic customer deposits reached AED3.5 billion (2018: AED3.1 billion) and AED4.6 billion (2018: AED4.2 billion), respectively.

SECTION 3

CORPORATE GOVERNANCE REPORT

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

INTRODUCTION

NBF ('The Bank') is committed to upholding the highest ethical and corporate governance standards. We believe high standards of corporate governance are a key contributor to the long-term success of any business, creating trust and engagement between the company and its stakeholders. This belief and subsequent approach underpin our business model.

Striving to deliver exemplary governance is a core aspect of the Bank's strategic intent and we have clear, comprehensive governance policies, procedures and practices throughout the Bank. In this Corporate Governance Report, we outline the key aspects of the Bank's corporate governance framework, including the role and responsibilities of the Board and each of its Committees. We continue to review and develop this framework in light of changes in the Bank's businesses, best practices and the external environment, and in line with international best practices.

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

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

WHO WE ARE

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

OVERALL STRUCTURE OF GOVERNANCE

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

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

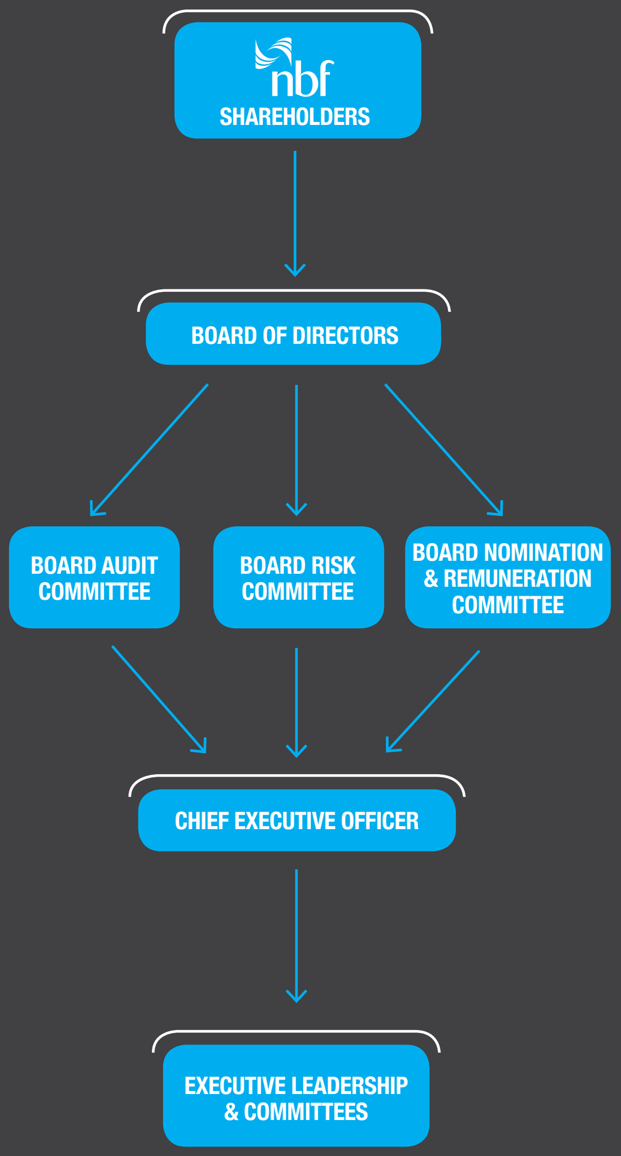
- Note 2: Details of our compliance with all applicable laws and regulations.
- Note 4: Accounting policies.
- Note 5: Financial Risk Management practices.

The corporate and governance documents accessible through our website are:

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

ORGANISATION

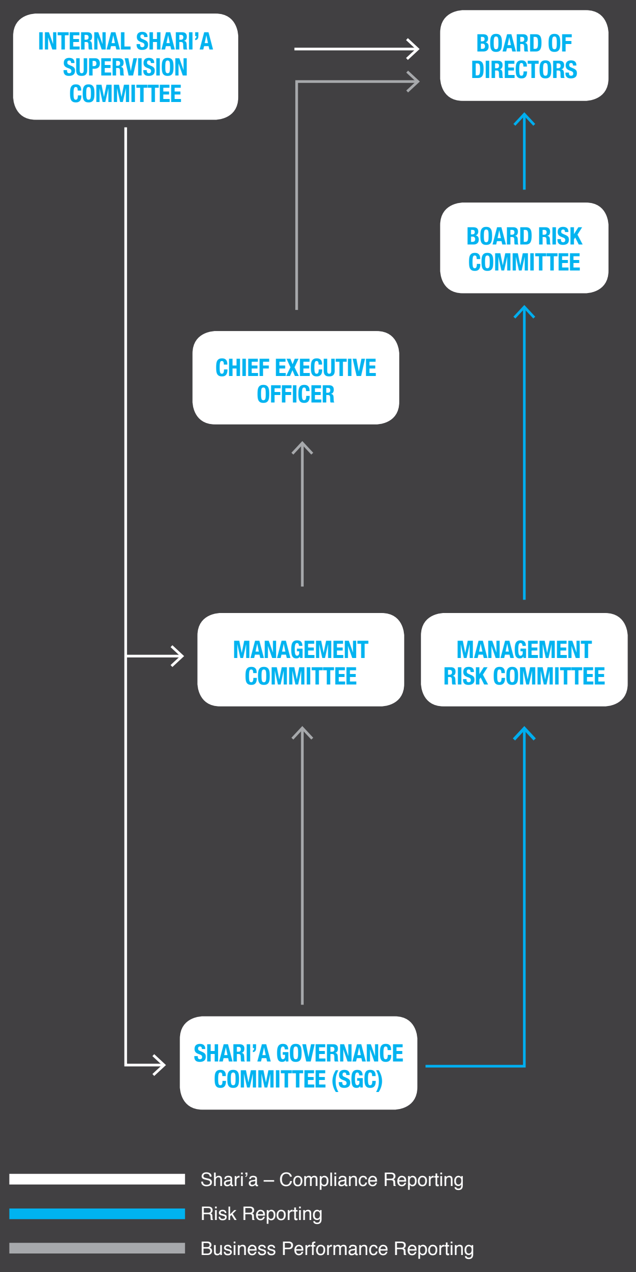
Our governance structure is robust. At executive level, the Management Committee and Management Risk Committee oversee and provide strategic direction to various other committees in the Bank. The committees also monitor local and international best practices regularly, and reviews and makes recommendations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



ISLAMIC BANKING GOVERNANCE

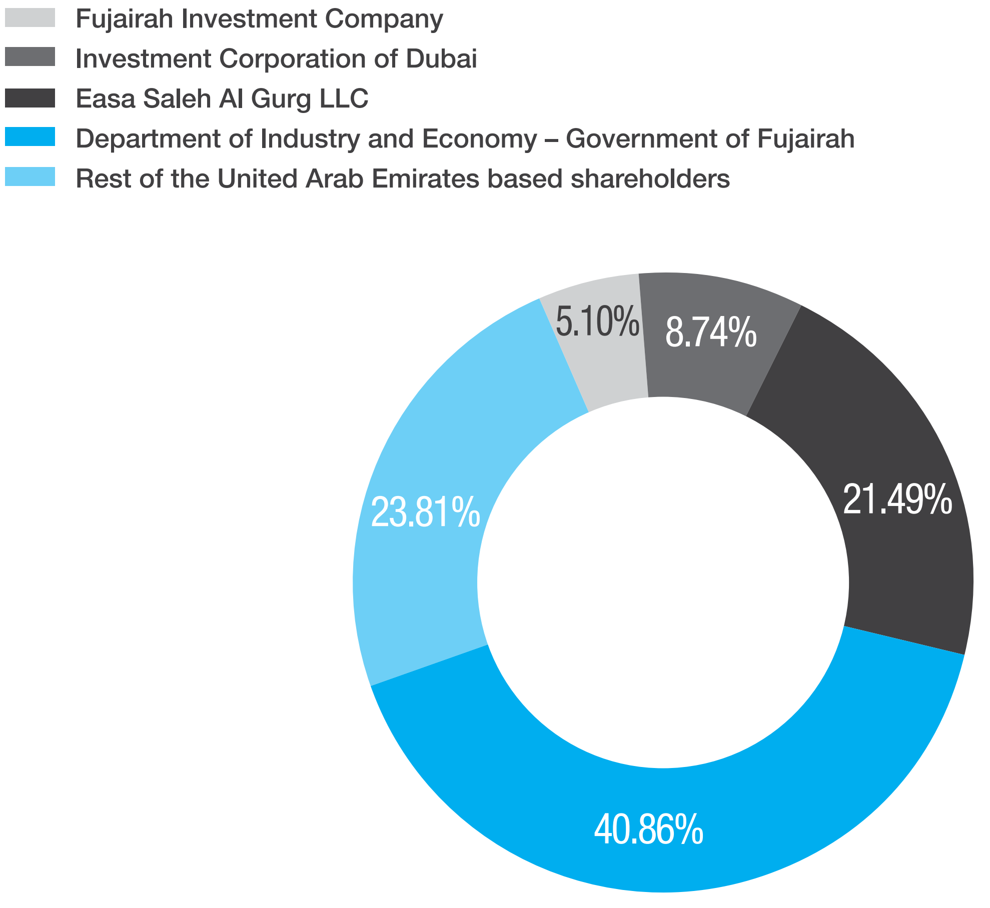
We have established a Shari'a Governance Framework, an Internal Shari'a Supervision Committee and a Shari'a audit process to ensure our Shari'a governance practices are world class. We maintain independent records and accounts for NBF Islamic, a core segment of our business. The bank's priority is to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

NBF ISLAMIC – SHARI'A GOVERNANCE STRUCTURE



SHAREHOLDERS

As at 31 December 2019, NBF's shareholders were:



2019: During the year, 601,750 shares representing 0.03 percent of the Bank's shares were traded (2018: 17,542,474 shares representing 1.07 percent of the Bank's shares were traded). The market capitalisation of the Bank was AED9.2 billion (2018: AED7.9 billion).

THE BOARD

Board composition is as follows:

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

BOARD RESPONSIBILITIES

The Board approves and oversees NBF strategy, policies, risk appetite, senior appointments and senior executive remuneration. The functions and responsibilities of our Board are clearly defined in our Corporate Governance Framework Manual.

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

Culture and Reputation
- Reviewing the performance of the CEO and senior management

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

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

External Reporting
- Approval of the Bank's statutory financial statements and relevant reporting
- Risk Management and Compliance matters
- Monitoring risk management outcomes

RISK APPETITE AND CULTURE

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

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

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

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

CAPITAL AND LIQUIDITY

Our financial stability is underpinned by strong levels of capital adequacy and liquidity, relative to risk profile and growth. The group is predominantly deposit funded and its deposits to total assets ratio stood at 74.6 percent in 2019. Our advances to deposits ratio stood at 84.8 percent.

Our balance sheet is well-diversified and our eligible liquid assets ratio at the end of 2019 was 21.7 percent.

We monitor our liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). At 31 December 2019, the Group's NSFR and LCR stood at 106 percent (2018: 105 percent) and 440 percent (2018: 319 percent) respectively.

NBF maintains prudent market risk limits in 2019 and our trading activities are executed predominantly to support customer activities.

We ended the year with a capital adequacy ratio of 17.8 percent, a tier 1 ratio of 16.6 percent and common equity ratio of 12.9 percent.

In 2018 we began the process of issuing new Basel III compliant additional tier 1 capital. In October 2019, USD350 million AT 1 capital securities were issued, which strenghtened bank's capital ratios.

REGULATORY COMPLIANCE

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

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

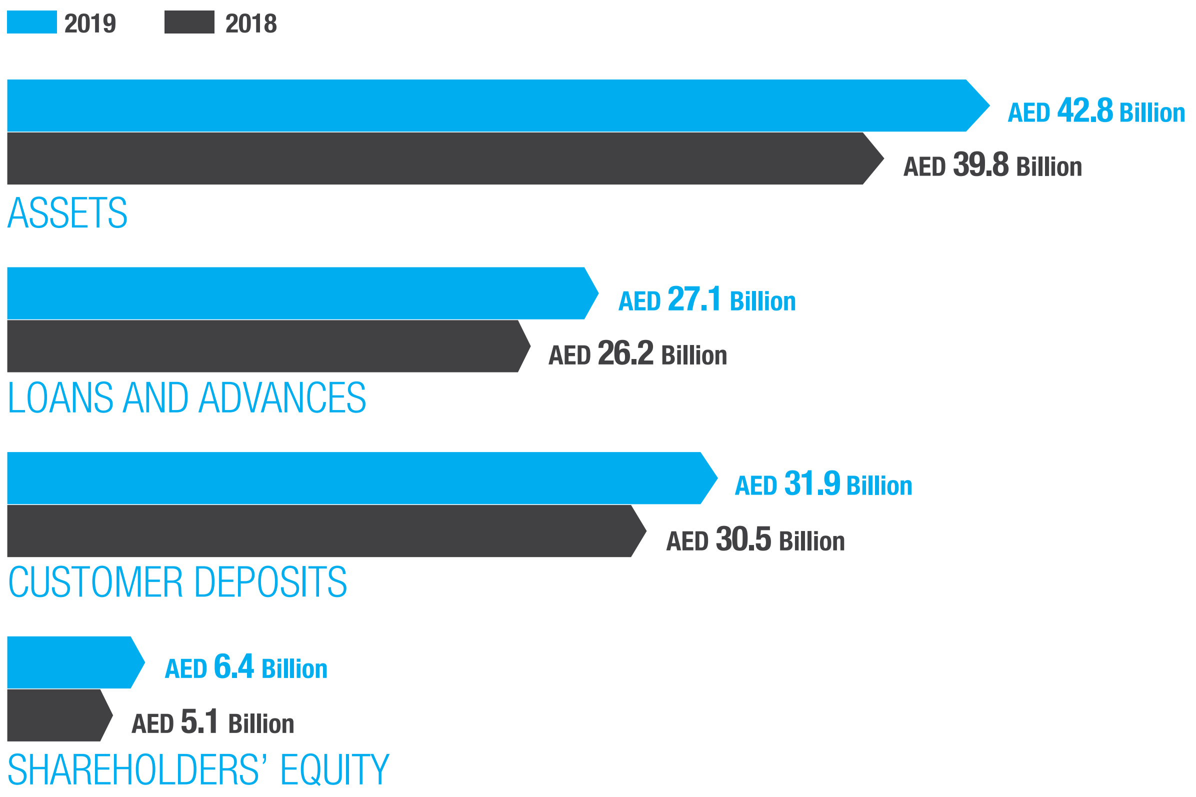
We are also closely aligned with the requirements of the National Electronic Security Agency (NESA).

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

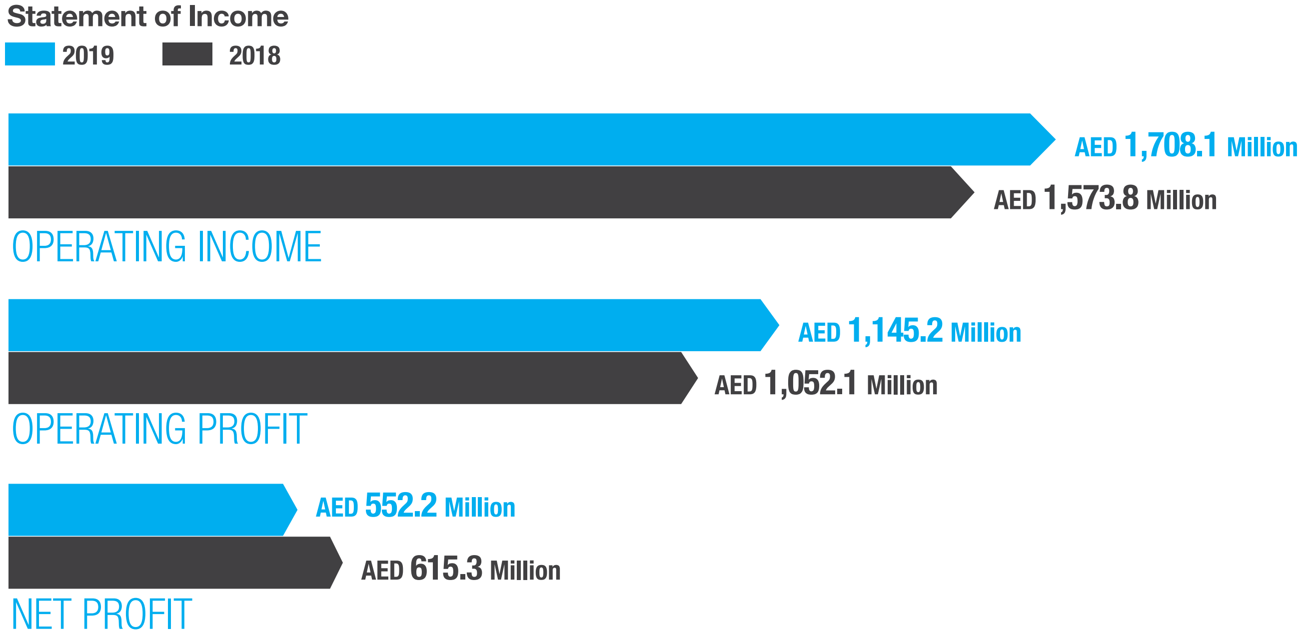
Performance and Risk Indicators	31 Dec 2019	31 Dec 2018
Return on average assets	1.3%	1.6%
Return on average equity	9.6%	12.3%
Cost to income ratio	33.0%	33.2%
Capital Adequacy Ratio (CAR)	17.8%	15.2%
Tier 1 Ratio	16.6%	14.1%
Loan to deposits ratio	84.8%	86.0%
Eligible liquid asset ratio	21.7%	21.9%

FINANCIAL RESULTS

Statement of Financial Position



Statement of Income



BOARD & BOARD COMMITTEES

In 2019, the Board of Directors and sub-committees met regularly.

The table below provides details of membership and meetings of the Board and Board Committees held in 2019.

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 2020		*	*	
Vince Cook	CEO	I	I	I	I
Adnan Anwar	CFO	I	I	I	
Balaji Krishnamurthy	COO	I		I	
Justin Morgan-Cooper	CRO		I		
Kevin Taylor	HOIA		I	I	
Abdulla AlAter	HOHR			I	
Vikram Pradhan	HOC&IB			I	
Total no. of meetings		7	4	4	4
Approvals by circulation		3	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, related risk and strategy to the Board annually.

The Board approves credit and investment proposals above defined thresholds. During 2019, there were 124 credit applications forwarded to the Board for approval.

APPOINTMENT, RETIREMENT AND RE-ELECTION

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

The Chairman, Deputy Chairman and all Directors are non-executive directors.

Directors must declare interests and directorships on an annual basis.

DIRECTORS' INTERESTS IN THE NBF SHARES

Name (Board of Directors)	Shareholding at 01 January 2019	Shareholding at 31 December 2019	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	1,403,438	1,578,867	12.5%
Saif Sultan Al Salami	-	-	-
Mohamed Obaid Bin Majed Al Aleeli	357,696	402,408	12.5%
Abdulla Fareed Al Gurg	-	-	-
Ahmed Saeed Al Raqbani	-	-	-

BOARD PERFORMANCE

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

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

BOARD COMMITTEES

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

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

- Review of the group's Enterprise Risk Management and Internal Control Framework,
- Review of group risk appetite and risk policies,
- Review of the credit risk rating system,
- Review of policies for asset and liability management,
- Review of financial and other risk exposures and the steps management has taken to identify and measure risk,
- Review of appropriate transaction or trading limits,
- Review of reports and significant findings from the Risk Management Division, Management Risk Committee and from the regulatory agencies relating to risk,
- Review of Internal Capital Adequacy Assessment Process (ICAAP) submission to the Central Bank of the UAE,
- Review of the quality, structure and adequacy of capital and economic capital allocation,
- Review of the Basel III, liquidity and leverage review methodologies,
- Monitoring of group compliance with legal and regulatory obligations, and
- Review of major disclosure documentation prior to issue to the market.

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

- Confirming and assuring the independence of internal auditors,
- Reviewing with the Head of Internal Audit and the external auditor the scope, plan, coordination and effectiveness of internal and external audit work,
- Overseeing the preparation of financial statements, including a review of the interim and year end accounts, to monitor that such accounts have been prepared in accordance with proper accounting rules and practices,
- Reviewing the group's internal control systems for effectiveness, and

- Reviewing all internal audit reports concerning any investigation or significant fraud that occurs within the group.

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

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

BOARD REMUNERATION

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

The remuneration of Board members is fixed for the year and paid annually, in line with the approval of the Annual General Assembly Meeting. For 2019, the total amount was AED4.8 million, which was charged to the statement of income and represents 0.9 percent of the Bank's net profit.

Board member remuneration paid during 2019 for year 2018	Directors' fees (AED per annum)
Chairman	800,000
Deputy Chairman	800,000
Director and Board Secretary	400,000 (Per Person)

MANAGEMENT COMMITTEE

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

AUDITOR AND INDEPENDENCE

Ernst & Young (EY) was appointed as external auditor for the Bank and its subsidiaries by the shareholders at the Annual General Assembly Meeting (AGAM) held on 18 March 2019. The fee for the external audit of the Bank and its subsidiaries for the year ended 31 December 2019 was AED615,000.

In addition, the engagement fee for other services rendered amounted to AED285,547. All non-audit work is pre-approved by the Board.

Ernst & Young Middle East,
28th Floor, Al Saqr Business Tower, Sheikh Zayed Road,
P.O. Box: 9267, Dubai, United Arab Emirates
Telephone: +971 4 332 4000
Facsimile: +971 4 332 4004

DIVERSITY, SUSTAINABILITY AND SOCIAL RESPONSIBILITY

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

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

INVESTOR RELATIONS AND EXTERNAL COMMUNICATIONS

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

FINANCE DEPARTMENT

Telephone: +971 9 202 9210

Facsimile: +971 9 202 9403

E-mail: NBF-investorrelations@nbf.ae

Website: www.nbf.ae

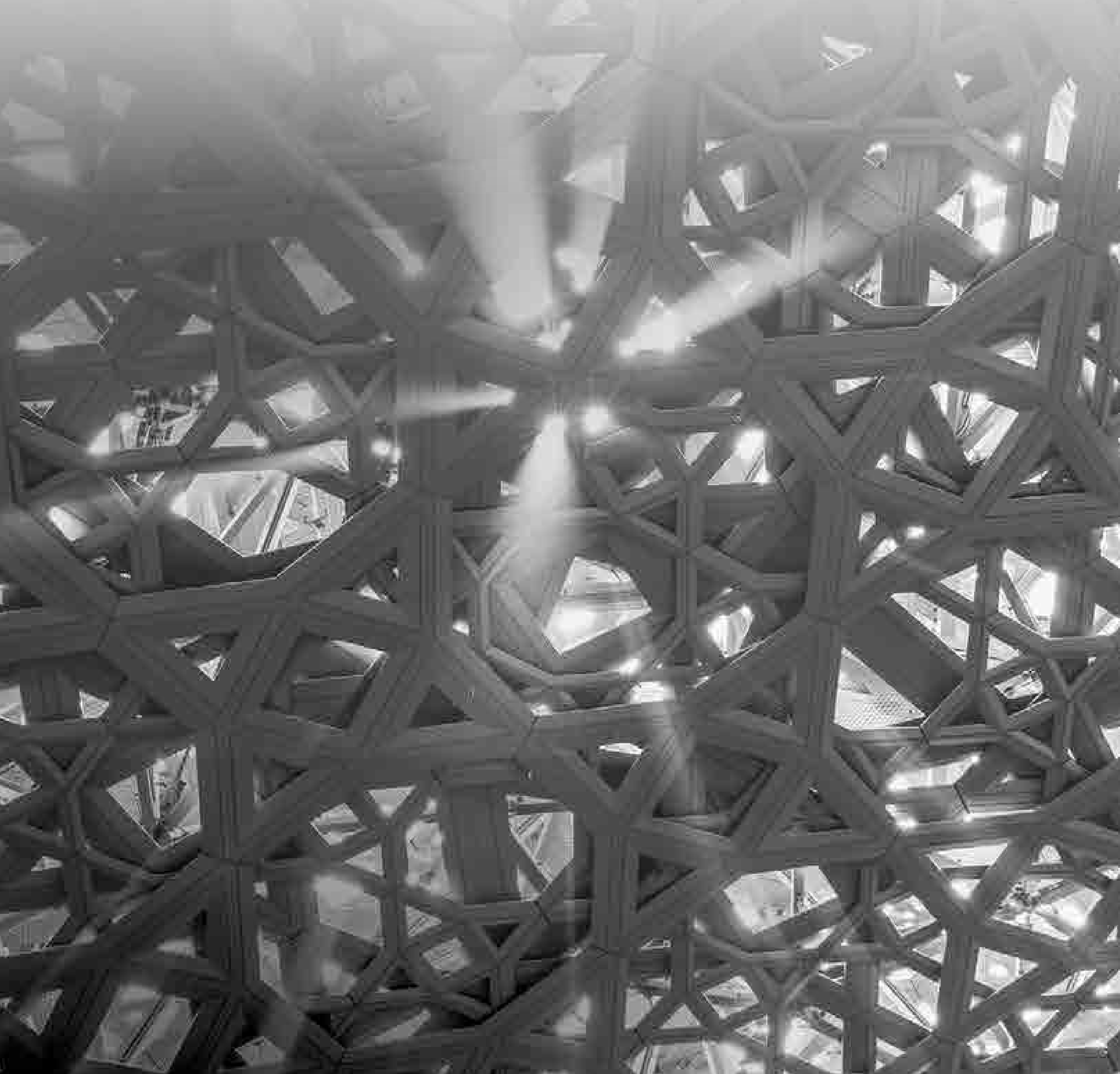
(refer to the investor relations section for further details)

STRATEGIC MARKETING AND COMMUNICATIONS DEPARTMENT

E-mail: corpcomm@nbf.ae

INTERNAL SHARI’A SUPERVISION COMMITTEE REPORT

Monitoring and supervision of Shari’a compliant banking.



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

ANNUAL REPORT OF THE INTERNAL SHARI'A SUPERVISION COMMITTEE

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

Issued on: 09 February 2020

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

After greetings,

Pursuant to the requirements stipulated in the relevant laws, regulations and standards ("Regulatory Requirements"), the Internal Shari'a Supervision Committee of the Institution ("ISSC") presents to you the ISSC's Annual Report regarding Shari'a compliant businesses and operations of the Institution for the financial year ending on 31 December 2019 ("Financial Year").

1.Responsibility of the ISSC

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

a. undertake Shari'a supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Institution's Activities") and issue Shari'ah resolutions in this regard, and

b. to determine Shari'a parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'a within the framework of the rules, principles, and standards set by the Higher Shari'a Authority ("HSA") to ascertain compliance of the Institution with Islamic Shari'a.

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

2. Shari'a Standards

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

3. Works Undertaken by the ISSC During the Financial Year

The ISSC undertook Shari'a supervision of the Institution's Activities through review of those Activities, and monitoring through internal Shari'a control and internal Shari'ah audit, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:

a. Convening 3 meetings during the year.

b. Providing fatwas, opinions and resolutions on matters presented to the ISSC in relation to the Institution's Activities.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.

d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders with parameters set by the ISSC.

e. Supervision through internal Shari'a Control and internal Shari'a Audit of the Institution's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

f. Providing direction to relevant parties of the Institution to rectify (where possible) findings cited in the reports submitted by the internal Shari'a control and internal Shari'a audit, and issuance of resolutions to set aside revenue derived from transactions in which non-compliance were identified to be disposed towards charitable purposes.

g. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future; and

h. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning compliance of the Institution with Islamic Shari'a.

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

4. Independence of the ISSC

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

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

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

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

Dr. Mohamed Ali Elgari (Chairman)

Dr. Mohd Daud Bakar (Executive Member)

Dr. Muhammad Amin Ali Qattan (Member)

Dr. Osama Al-Dereai (Member)

SECTION 5

INDEPENDENT AUDITOR’S REPORT

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of National Bank of Fujairah PJSC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income and consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International - Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

Refer to note 10 of the consolidated financial statements.

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

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

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

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

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

How our Audit Addressed the Key Audit Matter

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

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

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

We have performed the following substantive audit procedures:

- Reviewed the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions / judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates, cure rate, and discount rate.
- For selected samples, we performed procedures to determine whether significant increase in credit risk have been correctly identified.
- For forward-looking measurements, reviewed management's selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis.
- For selected samples, we examined key data inputs into the ECL models.
- We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy.
- We assessed adequacy of disclosure in the consolidated financial statements.

Other Information

Other information consists of the information included in the Group's Annual Report 2019, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

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

audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

i) the Group has maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;

iv) the financial information included in the strategic report, directors' report and corporate governance report is consistent with the books of account of the Group;

v) note 9 reflects the shares purchased by the Bank during the year;

vi) note 29 reflects material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of Bank, its Memorandum and Articles of Association which would have a material impact on its activities or its financial position; and

viii) note 26 reflects the social contributions made during the year.

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

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 11 February 2019.

For Ernst & Young

Joseph Alexander Murphy
Partner
Registration No: 492

09 February 2020
Dubai, United Arab Emirates

GROUP FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 AED'000	2018 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	6,864,369	6,722,964
Due from banks and financial institutions	8	2,345,720	1,415,362
Investments and Islamic instruments	9	3,367,190	2,713,447
Loans and advances and Islamic financing receivables	10	27,095,498	26,202,411
Property and equipment and capital work-in-progress	13	348,972	292,048
Other assets	14	2,783,508	2,437,054
Total assets		**42,805,257**	**39,783,286**
Liabilities			
Due to banks	15	1,346,810	569,314
Customer deposits and Islamic customer deposits	16	31,949,730	30,472,471
Term borrowings	15	293,840	863,155
Other liabilities	17	2,864,323	2,756,480
Total liabilities		**36,454,703**	**34,661,420**
Equity			
Share capital	18	1,850,012	1,644,455
Statutory reserve	18	936,053	936,053
Special reserve	18	561,899	506,492
Fair value reserve		31,409	(27,932)
Proposed cash dividends	18	185,002	123,334
Proposed bonus issue	18	64,750	205,557
Impairment reserve	12.2	363,069	266,440
Retained earnings		1,072,810	967,467
Tier 1 capital securities / notes	19	1,285,550	500,000
Total equity attributable to equity and securities holders of the Group		**6,350,554**	**5,121,866**
Total liabilities and equity		**42,805,257**	**39,783,286**

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 09 February 2020 and are signed on its behalf by:

Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman

Easa Saleh Al Gurg, KCVO, CBE
Deputy Chairman

The notes on pages 41 to 91 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 31 to 34.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	2019 AED'000	2018 AED'000
Interest income and income from Islamic financing and investment activities	20	1,935,379	1,764,911
Interest expense and distribution to Islamic depositors	21	(783,019)	(678,260)
Net interest income and net income from Islamic financing and investment activities		**1,152,360**	**1,086,651**
Net fees and commission income	22	342,386	308,663
Foreign exchange and derivatives income		151,166	137,275
Income / (loss) from investments and Islamic instruments		10,837	(5,033)
Other operating income	23	51,337	46,280
Operating income		**1,708,086**	**1,573,836**
Operating expenses			
Employee benefits expense	24	(356,618)	(344,361)
Depreciation and amortization	13	(36,775)	(25,708)
Other operating expenses		(169,489)	(151,667)
Total operating expenses		**(562,882)**	**(521,736)**
Operating profit before impairment losses		**1,145,204**	**1,052,100**
Net impairment losses	27	(593,021)	(436,786)
Profit for the year		**552,183**	**615,314**
Earnings per share (basic and diluted)	28	**AED 0.27**	**AED 0.29**

The notes on pages 41 to 91 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 31 to 34.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 AED'000	2018 AED'000
Profit for the year	**552,183**	**615,314**
Other comprehensive income:		
Items that will not be reclassified subsequently to income statement:		
Movement in fair value reserve (equity instruments):		
- Net change in fair value	12,064	(8,804)
Items that may be reclassified subsequently to income statement:		
Movement in fair value reserve (debt instruments):		
- Net change in fair value	51,846	(19,985)
- Net amount transferred to income statement	(4,569)	(1,159)
Other comprehensive income / (loss) for the year	**59,341**	**(29,948)**
Total comprehensive income for the year	**611,524**	**585,366**

The notes on pages 41 to 91 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 31 to 34.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 AED'000	2018 AED'000
Operating activities			
Profit for the year		**552,183**	**615,314**
Adjustments for:			
Depreciation and amortization	13	36,775	25,708
Provision for employee end of service and other long term benefits	17.1	16,995	14,939
Net impairment losses	27	593,021	436,786
Net fair value gains on disposal of investments and Islamic instruments		(3,320)	(1,552)
Net changes in fair value of investments at fair value through profit or loss		(7,517)	6,585
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		**1,188,137**	**1,097,780**
Payment of employee end of service and other long term benefits	17.1	(12,890)	(9,421)
Change in statutory reserve with the UAE Central Bank		(115,190)	(167,228)
Change in due from banks and financial institutions		(435,753)	446,697
Change in loans and advances and Islamic financing receivables		(1,438,889)	(2,708,068)
Change in other assets		(346,454)	(784,117)
Change in due to banks		45,859	54,571
Change in customer deposits and Islamic customer deposits		1,477,259	2,607,474
Change in other liabilities		24,056	843,769
Net cash generated from operating activities		**386,135**	**1,381,457**
Investing activities			
Purchase of property and equipment and capital work-in-progress		(58,232)	(153,223)
Purchase of investments and Islamic instruments		(2,185,671)	(2,922,952)
Proceeds from sale of investments and Islamic instruments		1,601,279	2,095,605
Net cash used in investing activities		**(642,624)**	**(980,570)**
Financing activities			
Proceeds from term borrowings		183,650	569,315
Repayment of term borrowings		(752,965)	(1,116,235)
Cash dividends paid		(123,334)	(102,489)
Proceeds from issue of Additional Tier 1 (AT1) capital securities		1,285,550	-
Buy-back of tier 1 capital notes		(500,000)	-
Tier 1 capital notes coupon paid		(38,969)	(70,938)
AT1 capital securities issuance cost		(6,083)	-
Net cash generated from / (used in) financing activities		**47,849**	**(720,347)**
Net change in cash and cash equivalents		**(208,640)**	**(319,460)**
Cash and cash equivalents at beginning of the year		5,530,379	5,849,839
Cash and cash equivalents at end of the year	30	**5,321,739**	**5,530,379**
Principal non-cash transactions during the year			
Conversion of tier 1 capital notes to paid-up share capital		-	(500,000)
Issuance of ordinary shares on conversion of tier 1 capital notes		-	175,439
Movement in reserves on conversion of tier 1 capital notes		-	324,561
		-	-

The notes on pages 41 to 91 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 31 to 34.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Proposed dividends	Retained earnings	Impairment reserve	Tier 1 capital notes	Total
At 01 January 2018	**1,366,527**	**549,992**	**444,992**	**(4,089)**	**204,978**	**1,328,238**	**-**	**1,000,000**	**4,890,638**
Initial application of IFRS 9	-	-	-	6,105	-	(300,772)	113,956	-	**(180,711)**
Restated balance at 01 January 2018	**1,366,527**	**549,992**	**444,992**	**2,016**	**204,978**	**1,027,466**	**113,956**	**1,000,000**	**4,709,927**
Excess provisions under UAE Central Bank requirements over IFRS 9 (note 12.2)	-	-	-	-	-	(152,484)	152,484	-	-
Profit for the year	-	-	-	-	-	615,314	-	-	**615,314**
Other comprehensive income for the year	-	-	-	(29,948)	-	-	-	-	**(29,948)**
Conversion of tier 1 capital notes to paid-up share capital (note 18 &19)	175,439	324,561	-	-	-	-	-	(500,000)	-
Tier 1 capital notes coupon paid (note 19)	-	-	-	-	-	(70,938)	-	-	**(70,938)**
Proposed cash dividends	-	-	-	-	123,334	(123,334)	-	-	-
Proposed bonus issue	-	-	-	-	205,557	(205,557)	-	-	-
Transfer to reserves	-	61,500	61,500	-	-	(123,000)	-	-	-
2017 cash dividends paid	-	-	-	-	(102,489)	-	-	-	**(102,489)**
2017 bonus shares issued	102,489	-	-	-	(102,489)	-	-	-	-
At 31 December 2018	**1,644,455**	**936,053**	**506,492**	**(27,932)**	**328,891**	**967,467**	**266,440**	**500,000**	**5,121,866**
At 01 January 2019	**1,644,455**	**936,053**	**506,492**	**(27,932)**	**328,891**	**967,467**	**266,440**	**500,000**	**5,121,866**
Profit for the year	-	-	-	-	-	552,183	-	-	**552,183**
Other comprehensive income for the year	-	-	-	59,341	-	-	-	-	**59,341**
Excess provisions under UAE central bank requirements over IFRS 9 (note 12.2)	-	-	-	-	-	(96,629)	96,629	-	-
Issue of Additional Tier 1 (AT1) capital securities (note 19)	-	-	-	-	-	-	-	1,285,550	**1,285,550**
AT1 capital securities issuance cost	-	-	-	-	-	(6,083)	-	-	**(6,083)**
Buy back of tier 1 capital notes (note 19)	-	-	-	-	-	-	-	(500,000)	**(500,000)**
Tier 1 capital notes coupon paid (note 19)	-	-	-	-	-	(38,969)	-	-	**(38,969)**
Proposed cash dividends	-	-	-	-	185,002	(185,002)	-	-	-
Proposed bonus issue	-	-	-	-	64,750	(64,750)	-	-	-
Transfer to reserves	-	-	55,407	-	-	(55,407)	-	-	-
2018 cash dividends paid	-	-	-	-	(123,334)	-	-	-	**(123,334)**
2018 bonus shares issued	205,557	-	-	-	(205,557)	-	-	-	-
At 31 December 2019	**1,850,012**	**936,053**	**561,899**	**31,409**	**249,752**	**1,072,810**	**363,069**	**1,285,550**	**6,350,554**

The notes on pages 41 to 91 form an integral part of these consolidated financial statements.

The report of the independent auditor is set out on pages 31 to 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.Legal status and activities

National Bank of Fujairah (the Bank) is a Public Joint Stock Company registered under the laws of the United Arab Emirates. The Bank operates under a banking license issued on 29 August 1984 by the Central Bank of the United Arab Emirates (the UAE Central Bank) and commenced operations on 20 September 1984. The shares of the Bank were listed on Abu Dhabi Securities Exchange (ADX) on 23 October 2005. The Bank's key shareholders include the Department of Industry and Economy – Government of Fujairah, Easa Saleh Al Gurg LLC and Investment Corporation of Dubai.

The principal activity of the Bank is commercial banking which is carried out from its network of nineteen branches, including two electronic banking service units in Al Reef - Abu Dhabi and Dubai South, 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).

The consolidated financial statements for the year ended 31 December 2019 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 reviews and annual audited consolidated financial statements, along with Management Discussion Analysis or Directors' report and any other price sensitive information, to ADX and SCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website;
- Publication of the annual report; and
- Investor presentations.

In addition, the Group's Strategic Marketing and Communications department discloses and disseminates information through press releases, media coverage and the Group's website.

3. Basis of preparation

Statement of compliance

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

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

4. Significant accounting policies

(a) Standards, amendments and interpretations

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2019

	Effective date
i. IFRS 16 'Leases' The Group adopted IFRS 16 from 01 January 2019, and has not restated the comparative for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The effect of adoption IFRS 16 is as follows:	**01 January 2019**

Impact on the statement of financial position (increase / decrease) as at 31 December 2019

	2019 AED'000
Property and equipment and capital work-in-progress	
Right-of-use assets	35,466
Accumulated depreciation	(7,908)
	27,558
Other liabilities	
Lease liabilities	**27,975**

Impact on the statement of income (increase / decrease) for the year ended 31 December 2019

	2019 AED'000
Rent expense	10,215
Depreciation and amortization	(9,670)
Operating profit	545
Finance costs	(1,057)
Net impact	**(512)**

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

	Effective date
ii. IFRS 9, 'Financial Instruments' 'Financial Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation The Board has issued a narrow-scope amendment to IFRS 9 to enable entities to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL). This amendment confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. 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. Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognised in the consolidated financial statements for the year ended 31 December 2019 pertain to the changes introduced because of adoption of IFRS 16: Leases, which are covered in the above section.	**01 January 2019**

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 01 January 2019 and not early adopted

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

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

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 01 January 2019 that would be expected to have a material impact on the Group's consolidated financial statements.

IBOR reform disclosure: (effective date: 01 January 2020)

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

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

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project.

The Group has not early adopted the amendments and has concluded that the uncertainty arising from IBOR reform is not affecting its hedge relationships to the extent that the hedge relationships need to be discontinued.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

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

(d) Basis of consolidation

Subsidiaries

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

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

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

(e) Financial instruments

Classification and measurement

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

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

ii. those to be measured at amortised cost.

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

Financial assets measured at fair value through other comprehensive income

Debt instruments

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

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

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

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

Equity instruments

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

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

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

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

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

Financial instruments held for trading

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

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

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

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

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

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

Financial assets measured at amortised cost

Debt instruments

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

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

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

Impairment of financial assets

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

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

No ECL is recognised on equity investments.

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

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

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

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

Loan commitments and letters of credit

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

Guarantee contracts

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

Measuring ECL

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

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

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

The most significant period-end assumptions used for ECL estimate as at 31 December 2019 are set out below. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables:

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

Sensitivity analysis

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

Change in ECL due to change in macroeconomic variables	Base case	Upside	Downside
Stage 1	-9.13%	-32.68%	+68.85%
Stage 2	-2.20%	-30.12%	+37.29%

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

Determining the stage for impairment

At each reporting date, the Group assesses whether there has been an SICR for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information. Further, forward-looking economic information / variables are also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by segments and product type. Further, the assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a periodic basis by the Risk and Credit functions.

An exposure will migrate through the ECL stages as the asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-month ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's rating downgrade methodology, or which are less than or equal to 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-month ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as other operating income in the consolidated statement of income. The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

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

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

Significant increase in credit risk (SICR)

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

Quantitative factors

Stage	Corporate and Institutional Banking portfolio	Retail portfolio	Due from banks and Investments portfolio
1 » 2	• Rating downgrade as per internally defined criteria from the rating the initial recognition • Restructured portfolio • DPD 31-89 days	• Restructured portfolio • DPD 31-89 days	Credit rating of Caa1 to Caa3 to be assigned at classified as Stage 2
1 » 3 2 » 3	• Credit impaired portfolio • RR 20 - 22 • DPD ≥ 90 days		Credit rating of C and below to be classified as Stage 3

Qualitative factors

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

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

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

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

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit and Risk teams. The Group has not used the low credit exemption for any financial instruments during the year ended 31 December 2019.

Curing Criteria - upward ECL stage movement

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

- DPD movement
- Probationary period
- Notches of ratings upward movement

From stage 2 (Lifetime ECL) to stage 1 (12-month ECL)

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 2 to stage 1.
- DPD shall be ≤ 30 days over the last 12 month period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

From stage 3 (Lifetime ECL – credit impaired) to stage 2 (Lifetime ECL – not credit impaired)

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 3 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 3 to stage 2.
- DPD shall be < 90 days over the last 3 month period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

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

Fair value measurement principles

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

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

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

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

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

Fair value hierarchy

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

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

- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

(f) Derivatives

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

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

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

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

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

Hedge accounting

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

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

Fair value hedges

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

Cash flow hedges

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

Hedge effectiveness testing

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

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

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

Derivatives that do not qualify for hedge accounting

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

(g) Key accounting estimates and judgments

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

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates. These disclosures supplement the commentary on financial risk management set out in note 5. In particular, considerable management judgement is required in the impairment losses on loans and receivables and investments portfolio covered in note 4 (e) of these consolidated financial statements.

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

(h) Due from banks and financial institutions

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

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

Property and equipment

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

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

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

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

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

Capital work-in-progress

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

Software

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

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

(j) Government grants

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

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

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

(l) Provisions

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

(m) Guarantees

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

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

(n) Employee end of services benefits

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

(o) Interest income and expense

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

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

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

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

(t) Foreign currencies

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

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

(u) Segment reporting

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

(v) Offsetting

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

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

(w) Earnings 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 – Policy applicable prior to 01 January 2019

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.

For policy applicable from 01 January 2019, please refer note 4 (a) (i) of these consolidated financial statements.

(z) Acceptances

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

(aa) Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

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

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

Murabaha

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

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

Ijara

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

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

Qard

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

Sukuk

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

Wa'ad – Structured Shari'a hedging product

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

Wakala

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

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

Istisna' forward ijara

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

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

Mudaraba

In Mudaraba, the customer enters into a contract with the Group where the customer in the capacity of Rab-al-Maal will give the Group cash as capital for investment purposes. The Group, as Mudarib, shall endeavor to assist the customer in achieving the investment goals. This is the type of an unrestricted Mudaraba investment contract whereby the investment decision will be at the full discretion of the Group.

The customer and the Group will then share the profit (if any) from the investments made by the Group based on a pre-agreed Profit Sharing Ratio (PSR).

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

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

5. Financial risk management

(a) Introduction

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

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

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

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

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

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

(b) Governance and risk management framework

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

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

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

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

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

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

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

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

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

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

UAE Central Bank during the year has issued a number of standards and regulations on the various elements of overall Risk Management and Capital Management Framework. The standards and regulations includes but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk have been effected in 2019. The Group had taken measures to adhere to the aforementioned new standards and regulations to ensure compliance from the effective implementation date.

Model risk management

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

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

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

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

(c) Credit risk

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

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

Management of credit risk

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

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

The CRMF includes elements of:

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

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

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

Concentration risk

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

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

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

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

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

Sector analysis

An analysis of sector concentrations of credit risk arising from loans and advances and Islamic financing receivables as at 31 December 2019 and 2018 is as follows:

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

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

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 2019 and 2018 is as follows:

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

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

Currency wise analysis

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

	2019			2018		
AED'000	Funded exposure	Unfunded exposure	Gross exposure	Funded exposure	Unfunded exposure	Gross exposure
AED	22,533,241	5,601,310	28,134,551	21,466,477	5,498,427	26,964,904
USD	4,868,760	2,358,086	7,226,846	4,711,446	1,889,414	6,600,860
EUR	21,594	114,433	136,027	32,242	134,277	166,519
GBP	-	5,376	5,376	1	4,002	4,003
XAU	934,035	17,869	951,904	1,137,161	15,081	1,152,242
Others	31,108	143,246	174,354	19,906	87,370	107,276
Gross Amount	**28,388,738**	**8,240,320**	**36,629,058**	**27,367,233**	**7,628,571**	**34,995,804**

Settlement risk

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

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

Risk mitigation, collateral and credit enhancements

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

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

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

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

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

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

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
AED'000	2019	2018	2019	2018
Stage 3				
Pledged deposits	248,938	180,560	9,070	9,221
Debt / equity securities	-	-	-	-
Property	591,362	575,842	473,620	412,500
Others	703,457	646,880	-	-
Gross amount	**1,543,757**	**1,403,282**	**482,690**	**421,721**
Life time ECL (Stage 3)	**(801,551)**	**(809,461)**	**-**	**-**
Carrying amount	**742,206**	**593,821**	**482,690**	**421,721**
Stage 1 and 2				
Pledged deposits	6,804,360	6,738,536	2,525,231	2,284,374
Debt / equity securities	535,562	142,389	308,488	120,515
Property	11,554,279	10,002,600	9,192,801	7,623,531
Others	7,950,780	9,080,426	-	-
Gross amount	**26,844,981**	**25,963,951**	**12,026,520**	**10,028,420**
12-month ECL (Stage 1) and Life time ECL (Stage 2)	**(491,689)**	**(355,361)**	**-**	**-**
Carrying amount	**26,353,292**	**25,608,590**	**12,026,520**	**10,028,420**
Total	**27,095,498**	**26,202,411**	**12,509,210**	**10,450,141**

	Contingent liabilities		Collaterals	
AED'000	2019	2018	2019	2018
Pledged deposits	5,105,798	5,033,468	651,000	700,466
Others	3,134,522	2,595,103	667,599	587,554
Total	**8,240,320**	**7,628,571**	**1,318,599**	**1,288,020**

During the year ended 31 December 2019, the Group took possession of mortgage properties amounting to AED 213.8 million (2018: Nil) which have been adjusted against the outstanding receivables. These have been recorded under Other Assets.

Credit quality

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

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

2019

Risk Grade AED '000	Stage 1	Stage 2	Stage 3	Total
RR 1-19				
Grade RR 1 - 17: Performing or normal	24,187,365	528,310	-	**24,715,675**
Grade RR 18 - 19: Watchlist and Other Loans Especially Mentioned (OLEM)	57,317	2,071,989	-	**2,129,306**
Total – RR1-19	**24,244,682**	**2,600,299**	**-**	**26,844,981**
RR 20-22: substandard, doubtful and loss	**-**	**-**	**1,543,757**	**1,543,757**
Total	**24,244,682**	**2,600,299**	**1,543,757**	**28,388,738**

2018

Risk Grade AED '000	Stage 1	Stage 2	Stage 3	Total
RR 1-19				
Grade RR 1 - 17: Performing or normal	22,345,716	1,141,085	-	**23,486,801**
Grade RR 18 - 19: Watchlist and Other Loans Especially Mentioned (OLEM)	584,508	1,892,642	-	**2,477,150**
Total – RR1-19	**22,930,224**	**3,033,727**	**-**	**25,963,951**
RR 20-22: substandard, doubtful and loss	**-**	**-**	**1,403,282**	**1,403,282**
Total	**22,930,224**	**3,033,727**	**1,403,282**	**27,367,233**

Loans and advances and Islamic financing receivables with renegotiated terms

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

When renegotiation happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

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

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

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

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

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

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

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

	2018			
Total restructured portfolio - AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	7,486	2,022,880	651,296	2,681,662
Allowances for impairment (ECL)	(280)	(134,685)	(381,189)	(516,154)
Carrying amount	**7,206**	**1,888,195**	**270,107**	**2,165,508**

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

	2019	
Restructured portfolio during the year - AED'000	Post-modification	Pre-modification
Outstanding balance		
Stage 1	-	97,389
Stage 2	129,075	47,189
Stage 3	2,563	-
Allowances for impairment (ECL)	**(13,145)**	**(4,561)**
Carrying amount	**118,493**	**140,017**

Allowances for impairment

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

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

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

Write-off policy

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

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

(d) Liquidity risk

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

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

Management of liquidity risk

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

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the UAE Central Bank representing 16.0% (2018: 16.9%) of total assets which also include mandatory cash reserve deposits with the UAE Central Bank. Short-term liquid assets also include investment grade marketable securities, due from banks and financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained both under normal conditions and simulated stress scenarios.

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

	ELAR		LSRR	
	2019	2018	2019	2018
12 month - Average	19.99%	19.50%	88.86%	89.92%
12 month - Highest	21.67%	21.88%	91.74%	91.80%
12 month - Lowest	19.39%	18.15%	85.87%	86.48%

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 2019, LCR and NSFR stood at 440% (2018: 319%) and 106% (2018: 105%) respectively.

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

2019 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Cash and balances with the UAE Central Bank	3,689,369	750,000	1,200,000	1,225,000	-	-	**6,864,369**
Due from banks and financial institutions	1,371,971	421,248	222,876	329,625	-	-	**2,345,720**
Investments and Islamic instruments	3,613	458,383	296,423	88,689	2,394,001	126,081	**3,367,190**
Loans and advances and Islamic financing receivables	7,173,820	5,175,809	2,872,943	1,545,802	6,525,667	3,801,457	**27,095,498**
Property and equipment and capital work-in-progress	-	-	-	-	-	348,972	**348,972**
Other assets	507,516	1,594,618	219,080	460,834	1,460	-	**2,783,508**
Total assets	**12,746,289**	**8,400,058**	**4,811,322**	**3,649,950**	**8,921,128**	**4,276,510**	**42,805,257**
Due to banks	758,530	513,280	-	75,000	-	-	**1,346,810**
Customer deposits and Islamic customer deposits	14,084,819	6,131,309	4,624,389	5,254,442	1,844,771	10,000	**31,949,730**
Term borrowings	-	183,650	110,190	-	-	-	**293,840**
Other liabilities	507,516	1,592,306	219,080	460,834	84,587	-	**2,864,323**
Total shareholders' equity	-	-	-	-	-	6,350,554	**6,350,554**
Total liabilities and equity	**15,350,865**	**8,420,545**	**4,953,659**	**5,790,276**	**1,929,358**	**6,360,554**	**42,805,257**
On-Balance Sheet Gap	**(2,604,576)**	**(20,487)**	**(142,337)**	**(2,140,326)**	**6,991,770**	**(2,084,044)**	**-**
Cumulative Gap	**(2,604,576)**	**(2,625,063)**	**(2,767,400)**	**(4,907,726)**	**2,084,044**	**-**	**-**

2018							
Total Assets	**13,672,418**	**7,739,982**	**3,883,011**	**2,325,670**	**8,544,329**	**3,617,876**	**39,783,286**
Total liabilities and equity	**13,620,694**	**7,883,141**	**5,067,892**	**5,601,221**	**2,478,472**	**5,131,866**	**39,783,286**
On-Balance Sheet Gap	**51,724**	**(143,159)**	**(1,184,881)**	**(3,275,551)**	**6,065,857**	**(1,513,990)**	**-**
Cumulative Gap	**51,724**	**(91,435)**	**(1,276,316)**	**(4,551,867)**	**1,513,990**	**-**	**-**

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

2019 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Guarantees	6,076,169	-	-	-	-	-	6,076,169
Letters of credit	116,017	1,127,349	591,841	328,119	825	-	2,164,151
Forward foreign exchange contracts	5,521,205	3,083,989	1,366,971	2,010,222	1,170,860	-	13,153,247
Currency options	562,872	1,223,084	2,311,994	3,196,600	5,320,159	-	12,614,709
Interest rate derivatives	-	14,850	78,295	10,212	8,227,591	1,397,894	9,728,842
Commodity derivatives	91,154	156,060	-	-	-	-	247,214
Total	**12,367,417**	**5,605,332**	**4,349,101**	**5,545,153**	**14,719,435**	**1,397,894**	**43,984,332**
2018							
Guarantees	6,022,132	-	-	-	-	-	6,022,132
Letters of credit	115,537	476,993	669,661	308,555	35,693	-	1,606,439
Forward foreign exchange contracts	10,245,815	2,876,488	388,537	1,136,848	-	-	14,647,688
Currency options	283,803	329,669	545,690	3,059,663	4,151,933	-	8,370,758
Interest rate derivatives	1,757	-	1,101,900	582,988	6,248,830	1,655,773	9,591,248
Commodity derivatives	87,003	307,130	5,190	305,641	-	-	704,964
Total	**16,756,047**	**3,990,280**	**2,710,978**	**5,393,695**	**10,436,456**	**1,655,773**	**40,943,229**

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

	2019			2018		
Derivatives AED'000	Positive fair value	Negative fair value	Net	Positive fair value	Negative fair value	Net
Forward foreign exchange contracts	36,235	38,377	(2,142)	37,149	45,188	(8,039)
Currency options	19,325	16,117	3,208	10,219	10,194	25
Interest rate derivatives	167,795	164,687	3,108	56,378	59,496	(3,118)
Commodity derivatives	10,704	9,820	884	39,060	42,956	(3,896)
	234,059	**229,001**	**5,058**	**142,806**	**157,834**	**(15,028)**

Liquidity analysis of financial liabilities by remaining contractual maturities

The following table summarizes the maturity profile of the Group's financial liabilities as at 31 December 2019 based on contractual undiscounted repayment obligations. However, the Group expects that substantial repayment requests will not occur on the earliest date and the amounts set out below do not represent expected cash flows.

2019 AED'000	Carrying amount	Gross nominal outflows	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	over 6 months to 1 year	Over 1 year to 5 years	Over 5 years
Financial liabilities								
Due to banks	1,346,810	(1,353,193)	(759,968)	(516,248)	-	(76,977)	-	-
Customer deposits and Islamic customer deposits	31,949,730	(32,441,586)	(14,161,679)	(6,228,375)	(4,765,061)	(5,397,548)	(1,878,120)	(10,803)
Term borrowings	293,840	(296,530)	-	(184,768)	(111,762)	-	-	-
Other liabilities	2,662,282	(2,662,282)	(507,516)	(1,473,392)	(219,080)	(460,834)	(1,460)	-
Total	**36,252,662**	**(36,753,591)**	**(15,429,163)**	**(8,402,783)**	**(5,095,903)**	**(5,935,359)**	**(1,879,580)**	**(10,803)**

(e) Market risk

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

Management of market risks

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

The Group has well-defined policies, procedures and trading limits in place to ensure oversight of Treasury's day-to-day operations, in accordance with the Board's defined risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's overall market risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's overall market risk appetite. The Group manages market risk positions within the risk management limits set out by the Board. Overall responsibility for monitoring market risk is vested with the MRC.

Investment price risk

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

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

The table below shows the impact of decline in fair value of investments by 10% on net income and regulatory capital and equity for 2019 and 2018:

Investments classified as FVTPL	Assumed level of change %	Impact on net income and regulatory capital 2019 AED'000	Impact on net income and regulatory capital 2018 AED'000
Reference benchmarks: Fair value of managed funds	10%	4,696	4,459

Investments classified as FVOCI	Assumed level of change %	Impact on equity 2019 AED'000	Impact on equity 2018 AED'000
Reference benchmarks: Quoted debt securities / Islamic Sukuks	10%	212,577	152,953
Other investments	10%	60,611	57,477

Currency risk

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

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

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

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

Currency	USD	EUR	Others
Open position			
2019 (AED'000)	**174,304**	**(1,722)**	**8,446**
2018 (AED'000)	**(260,840)**	**(3,767)**	**4,429**
Assumed change in exchange rates	5%	5%	5%
Impact on exchange income from increase in exchange rates:			
2019 (AED'000)	**8,715**	**(86)**	**422**
2018 (AED'000)	**(13,042)**	**(188)**	**221**
Impact on exchange income from decrease in exchange rates:			
2019 (AED'000)	**(8,715)**	**86**	**(422)**
2018 (AED'000))	**13,042**	**188**	**(221)**

At 31 December 2019, the impact on exchange income due to change in exchange rate by 5% is ±5.99% (2018: ±9.48%). Excluding the impact of US$ open position, the impact is ±0.22% (2018: ±0.02%).

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 2.47% (2018: 3.03%) 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

2019 (AED'000)	**93,368**	**17,676**	**376**	**(5,949)**	**105,471**
2018 (AED'000)	**109,781**	**5,419**	**322**	**(7,481)**	**108,041**

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

2019 (AED'000)	**(93,368)**	**(17,676)**	**(358)**	**5,931**	**(105,471)**
2018 (AED'000)	**(109,783)**	**(5,465)**	**(305)**	**7,512**	**(108,041)**

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

	2019		2018	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	2.29%	-2.29%	2.49%	- 2.49%
50	4.58%	-4.58%	4.97%	- 4.97%
100	9.15%	-9.15%	9.94%	- 9.94%

Impact on regulatory capital

	2019		2018	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	0.42%	-0.42%	0.53%	- 0.53%
50	0.85%	-0.85%	1.06%	- 1.06%
100	1.69%	-1.69%	2.11%	- 2.11%

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

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:

2019 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 to 5 years	Over 5 years	Non-interest bearing items	Total
Cash and balances with the UAE Central Bank	1,100,000	750,000	1,200,000	1,225,000	-	-	2,589,369	**6,864,369**
Due from banks and financial institutions	284,143	439,566	224,217	338,532	-	-	1,059,262	**2,345,720**
Investments and Islamic instruments	352,624	927,582	214,947	37,744	1,535,756	126,544	171,993	**3,367,190**
Loans and advances and Islamic financing receivables	11,877,091	9,578,857	3,464,337	882,070	524,542	515,706	252,895	**27,095,498**
Other assets	-	-	-	-	-	-	2,525,077	**2,525,077**
Total financial assets	**13,613,858**	**11,696,005**	**5,103,501**	**2,483,346**	**2,060,298**	**642,250**	**6,598,596**	**42,197,854**
Due to banks	752,491	513,280	-	75,000	-	-	6,039	**1,346,810**
Customer deposits and Islamic customer deposits	5,432,149	6,108,422	4,878,377	5,287,873	1,846,099	15,000	8,381,810	**31,949,730**
Term borrowings	-	183,650	110,190	-	-	-	-	**293,840**
Other liabilities	-	-	-	-	-	-	2,662,282	**2,662,282**
Total financial liabilities	**6,184,640**	**6,805,352**	**4,988,567**	**5,362,873**	**1,846,099**	**15,000**	**11,050,131**	**36,252,662**
Interest rate sensitivity gap								
On-balance sheet	7,429,218	4,890,653	114,934	(2,879,527)	214,199	627,250	(4,451,535)	
Off-balance sheet	73	143	73	-	(289)	-	-	
Cumulative	**7,429,291**	**12,320,087**	**12,435,094**	**9,555,567**	**9,769,477**	**10,396,727**	**5,945,192**	
2018								
Cumulative interest rate sensitivity gap	**9,115,602**	**13,176,748**	**12,531,914**	**8,881,252**	**8,761,778**	**9,462,968**	**4,943,796**	

Interest rate yields

The average earning on placements and balances with banks was 2.41% (2018: 1.92%), on loans and advances and Islamic financing receivables was 5.86% (2018: 5.78%) and on the investment portfolio was 2.75% (2018: 2.11%). The average cost of customer deposits and Islamic customer deposits was 2.30% (2018: 2.07%) and of due to banks and term borrowings was 2.65% (2018: 3.06%).

Derivative financial instruments

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

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

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

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

(iii) it is settled at a future date.

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

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

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

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

Hedging instrument

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

2018 AED'000	Assets	Liabilities	Notional
Derivatives held as fair value hedges			
Interest rate swaps	400	3,077	257,110
Total derivative financial instruments	**400**	**3,077**	**257,110**

The carrying value of investments (hedged item) is AED 270.2 million (2018: 253.3 million) and the accumulated amount of fair value adjustments to investments (hedged item) is AED 7.7 million (2018: 3.1 million). The gains / losses attributable to the hedged risk for investments amounted to AED 7.7 million (2018: 3.1 million) and on the interest rate swaps (hedging instrument) amounted to AED 7.7 million (2018: 3.1 million). All the hedges were fully effective for 2019 and 2018.

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

Hedging instrument

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

2018 AED'000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Interest rate swaps	-	-	-	-	257,110	-	**257,110**
	-	-	-	-	**257,110**	-	**257,110**

(f) IBOR Reforms

Interest rate benchmark reform:

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

Financial assets:

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

Currency	2019 AED '000
USD	5,976,566
EUR	53,173
JPY	9,331
Total	**6,039,070**

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

Financial liabilities:

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

(g) Operational risk

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

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

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

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

(h) Management of capital

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

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

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

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

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

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

Regulatory Capital

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

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

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

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

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

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

b. Tier 2 capital

It includes collective impairment provision and sub-ordinated facilities. Collective impairment provision, including Impairment Reserve – General, shall not exceed 1.25% of total credit risk weighted assets.

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

Minimum transitional arrangements as per UAE Central Bank

Capital element	Basel III 2019	Basel III 2018
Minimum common equity tier 1 ratio	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%
Capital conservation buffer	2.5%	1.875%

Capital Stress Testing

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

The stress testing exercise achieves the following objectives:

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

Capital Allocation

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

Capital base	2019 AED'000	2018 AED'000
CET1 capital		
Share capital	1,850,012	1,644,455
Statutory reserve	936,053	936,053
Special reserve	561,899	506,492
Retained earnings	1,137,560	1,173,024
Accumulated other comprehensive income	14,134	(27,932)
CET1 total	**4,499,658**	**4,232,092**
Additional tier 1 (AT1) capital		
Tier 1 capital securities / notes (note 19)	1,285,550	500,000
Total tier 1	**5,785,208**	**4,732,092**
Tier 2 capital		
Collective impairment provision	397,349	385,535
Total tier 2	**397,349**	**385,535**
Total capital base (a)	**6,182,557**	**5,117,627**

Risk weighted assets	2019 Risk-weighted equivalent AED'000	2018 Risk-weighted equivalent AED'000
Credit risk	31,787,910	30,842,794
Market risk	62,344	66,694
Operational risk	2,946,613	2,690,987
Total risk weighted assets (b)	**34,796,867**	**33,600,475**
Capital adequacy ratio (a) / (b) - %	**17.8**	**15.2**
Tier 1 ratio - %	**16.6**	**14.1**
Common equity tier 1 ratio (CET 1) - %	**12.9**	**12.6**

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

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

Apart from credit, market and operational risk covered in Pillar 1, the ICAAP report covers other material risks like residual risk, concentration risk, liquidity risk, interest rate risk in banking book (IRRBB), settlement risk, reputational risk, strategic risk, and cyber risk. ICAAP Stress Testing details, assumptions, methodology and results are documented in a separate stress testing manual that covers all aforementioned Pillar 1 and Pillar 2 risks. The Pillar II CAR for the year ended 31 December 2019 was 15.3% (2018: 13.2%).

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

Claims on public sector entities (PSEs)

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

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

Claims on multilateral development banks (MDBs)

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

Claims on banks

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

Claims on corporate portfolio

Claims on 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

2019 AED'000	On & off balance sheet Gross outstanding	Credit risk mitigation (CRM)			Risk-weighted assets
		Exposure before CRM	CRM	After CRM	
Claims on sovereigns	7,852,974	7,852,974	-	7,852,974	51,245
Claims on PSEs	130,024	130,024	-	130,024	14,770
Claims on banks	4,170,262	4,170,262	3,852	4,136,777	1,406,113
Claims on corporates and GREs	32,493,265	32,493,265	4,153,808	24,664,652	24,248,693
Regulatory retail exposures	1,105,258	1,105,258	105,170	998,807	777,033
Residential retail portfolio	1,888,793	1,888,793	3,992	1,888,793	1,260,340
Commercial real estate	2,049,672	2,049,672	-	2,049,672	2,049,672
Past due exposures	2,077,962	649,884	13,281	639,089	790,704
Higher-risk categories	3,687	3,687	-	3,687	5,531
Other exposures	1,573,627	1,573,626	-	1,573,626	1,183,809
Total	**53,345,524**	**51,917,445**	**4,280,103**	**43,938,101**	**31,787,910**

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

On and off balance sheet exposures include unutilized credit limits which are revocable at the discretion of the Bank amounting to AED 13,712 million (2018: AED 14,080 million).

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

Market risk and risk weights

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

	2019 AED'000	2018 AED'000
Interest rate risk		
- Specific interest rate risk	485	486
- General interest rate risk	-	-
Equity position risk		
- General equity exposure risk	4,592	4,779
Foreign exchange risk	1,469	1,738
Option risk	-	-
Total market risk capital charge	**6,546**	**7,003**
Market risk – risk weighted assets	**62,344**	**66,694**

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

Operational risk and risk weights

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

6. Financial assets and liabilities

6.1 Classification and measurement

The fair values and carrying values of the financial assets and liabilities at 31 December 2019 are as follows:

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

2018 AED'000	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Allowances for impairment (ECL)	Carrying amount
Financial assets					
Cash and balances with the UAE Central Bank	-	-	6,722,964	-	**6,722,964**
Due from banks and financial institutions	-	-	1,422,092	(6,730)	**1,415,362**
Investments and Islamic instruments	44,591	2,104,303	565,899	(1,346)	**2,713,447**
Loans and advances and Islamic financing receivables	-	-	27,367,233	(1,164,822)	**26,202,411**
Other assets	-	-	2,420,398	-	**2,420,398**
Total financial assets	**44,591**	**2,104,303**	**38,498,586**	**(1,172,898)**	**39,474,582**
Financial liabilities					
Due to banks	-	-	569,314	-	**569,314**
Customer deposits and Islamic customer deposits	-	-	30,472,471	-	**30,472,471**
Term borrowings	-	-	863,155	-	**863,155**
Other liabilities	-	-	2,581,804	44,042	**2,625,846**
Total financial liabilities	**-**	**-**	**34,486,744**	**44,042**	**34,530,786**

6.2 Fair value measurement – fair value hierarchy:

2019 AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuks	-	2,125,774	-	-
Other investments	-	649,384	3,688	-
Forward foreign exchange contracts	13,153,247	-	(2,142)	-
Currency options	12,614,709	-	3,208	-
Interest rate derivatives	9,728,842	-	3,108	-
Commodity derivatives	247,214	-	884	-

2018 AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuks	-	1,529,534	-	-
Other investments	-	613,931	5,429	-
Forward foreign exchange contracts	14,647,688	-	(8,039)	-
Currency options	8,370,758	-	25	-
Interest rate derivatives	9,591,248	-	(3,118)	-
Commodity derivatives	704,964	-	(3,896)	-

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

7. Cash and balances with the UAE Central Bank

AED'000	2019	2018
Cash on hand	271,489	226,243
Certificates of deposit (CDs) with the UAE Central Bank	4,275,000	4,675,000
Other balances with the UAE Central Bank (note 7.1)	2,317,880	1,821,721
	6,864,369	**6,722,964**

7.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 1,556.7 million (2018: AED 1,441.5 million).

8. Due from banks and financial institutions

8.1 By type

AED'000	2019	2018
Placements	537,205	100,000
Current accounts / term deposits	1,065,530	568,746
Bills discounted	751,892	753,346
	2,354,627	**1,422,092**
Less: Allowances for impairment (ECL) (note 12.1)	(8,907)	(6,730)
	2,345,720	**1,415,362**

As at 31 December 2019, current accounts / term deposits include cash collateral of AED 164.0 million (2018: AED 28.1 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

AED'000	2019	2018
UAE	660,631	572,382
GCC	412,696	71,842
Europe	179,401	407,137
Americas	777,390	81,715
Others	324,509	289,016
	2,354,627	**1,422,092**
Less: Allowances for impairment (ECL) (note 12.1)	(8,907)	(6,730)
	2,345,720	**1,415,362**

8.3 By currency

AED'000	2019	2018
AED	504,176	436,987
USD	1,700,496	499,660
EUR	49,323	381,984
GBP	5,323	5,826
XAU	12,710	15,972
Others	82,599	81,663
	2,354,627	**1,422,092**
Less: Allowances for impairment (ECL) (note 12.1)	(8,907)	(6,730)
	2,345,720	**1,415,362**

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

AED'000	2019	2018
AA	636	63
AA–	66,894	41,017
A+	203,939	43,729
A	397,038	193,176
A–	555,839	76,022
BBB+	582,640	438,903
BBB	16,124	125,584
BBB– and below	531,517	503,598
	2,354,627	**1,422,092**
Less: Allowances for impairment (ECL) (note 12.1)	(8,907)	(6,730)
	2,345,720	**1,415,362**

8.5 Due from banks and financial institutions stage-wise analysis

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

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

2018 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	1,358,499	64,119	-	**1,422,618**
Allowances for impairment (ECL) (note 12.1)	(4,781)	(1,949)	-	**(6,730)**
Carrying amount	**1,353,718**	**62,170**	**-**	**1,415,888**

Majority of due from banks and financial institutions are in stage 1 throughout the year and therefore have insignificant ECL. Accordingly, there have been no significant movements between stages in respect of these financial assets.

9. Investments and Islamic instruments

AED'000	2019	2018
Investments at fair value through profit or loss (FVTPL) (note 9.1)	**46,962**	**44,591**
Investments at fair value through other comprehensive income (FVOCI)		
Debt securities / Islamic sukuks (note 9.2)	2,125,774	1,529,534
Other investments (note 9.3)	606,110	574,769
	2,731,884	**2,104,303**
Investments measured at amortised cost		
Debt securities / Islamic sukuks (note 9.2)	590,517	565,899
	3,369,363	**2,714,793**
Less: Allowances for impairment (ECL) (note 12.1)	(2,173)	(1,346)
	3,367,190	**2,713,447**

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

9.2 Debt securities aggregating AED 2,716.3 million (2018: AED 2,095.4 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 970.2 million (2018: AED 761.2 million).

Debt securities include Islamic sukuks amounting to AED 646.6 million (2018: AED 528.2 million).

9.3 Other investments include shares purchased by the Bank, amounting to nil (2018: AED 0.16 million), during the year.

9.4 The dispersion of the investment portfolio is as follows:

AED'000	2019	2018
Government	1,000,591	905,536
Banks and financial institutions	1,428,229	968,343
Others	940,543	840,914
	3,369,363	**2,714,793**
Less: Allowances for impairment (ECL) (note 12.1)	(2,173)	(1,346)
	3,367,190	**2,713,447**

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

AED'000	2019	2018
UAE	682,881	521,603
GCC	307,749	227,212
Europe	824,719	788,692
Americas	721,199	480,709
Others	832,815	696,577
	3,369,363	**2,714,793**
Less: Allowances for impairment (ECL) (note 12.1)	(2,173)	(1,346)
	3,367,190	**2,713,447**

9.6 The currency wise analysis of the investment portfolio is as follows:

AED'000	2019	2018
AED	467	467
USD	3,313,831	2,656,476
EUR	40,209	40,058
JPY	14,856	17,792
	3,369,363	**2,714,793**
Less: Allowances for impairment (ECL) (note 12.1)	(2,173)	(1,346)
	3,367,190	**2,713,447**

9.7 An analysis of the investment based on external credit ratings is as follows:

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

2018 AED'000	Debt securities / Islamic sukuks	Other investments	Total
AAA	128,249	91,733	**219,982**
AA+	94,558	-	**94,558**
AA	274,714	90,692	**365,406**
AA-	386,860	-	**386,860**
A+	339,840	113,568	**453,408**
A	77,619	206,495	**284,114**
A-	292,822	-	**292,822**
BBB+	149,065	-	**149,065**
BBB- and below	351,706	116,872	**468,578**
Less: Allowances for impairment (ECL) (note 12.1)	(1,051)	(295)	**(1,346)**
	2,094,382	**619,065**	**2,713,447**

9.8 Debt investments and Islamic instruments stage-wise analysis:

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

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

2018 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	2,597,921	-	-	**2,597,921**
Allowances for impairment (ECL) (note 12.1)	(1,346)	-	-	**(1,346)**
Carrying amount	**2,596,575**	**-**	**-**	**2,596,575**

Debt investments and Islamic instruments are in stage 1 throughout the year and therefore have insignificant ECL. Accordingly, there have been no significant movements between stages in respect of these financial assets.

10. Loans and advances and Islamic financing receivables

10.1 Loans and advances and Islamic financing receivables by type:

AED'000	2019	2018
Overdrafts	2,437,108	2,227,625
Term loans	20,153,451	19,178,357
Loans against trust receipts	3,385,267	3,361,286
Bills discounted	2,165,752	2,304,705
Bills drawn under letters of credit	247,160	295,260
	28,388,738	**27,367,233**
Allowances for impairment (ECL) (note 12.1)	(1,293,240)	(1,164,822)
Net loans and advances and Islamic financing receivables	**27,095,498**	**26,202,411**

10.2. Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to AED 3,493.9 million (2018: AED 3,058.1 million) provided through a Shari'a compliant Islamic window, NBF Islamic.

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

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

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

2018 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	24,992,897	3,182,337	1,538,965	**29,714,199**
Allowances for impairment (ECL) (note 12.1)	(166,819)	(188,542)	(809,461)	**(1,164,822)**
Carrying amount	**24,826,078**	**2,993,795**	**729,504**	**28,549,377**

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

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

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

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

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

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

11. Contingent liabilities and commitments

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

AED'000	2019	2018
Contingent liabilities:		
Letters of credit covering movement of goods	2,164,151	1,606,439
Financial guarantees and other direct credit substitutes	873,424	965,942
Bid bonds, performance bonds and other transaction related contingencies	5,202,745	5,056,190
	8,240,320	**7,628,571**
Commitments:		
Undrawn irrevocable commitments – credit related	183,179	177,458
Others	87,612	75,403
	270,791	**252,861**
	8,511,111	**7,881,432**

The total undrawn commitments which are revocable at the discretion of the Bank amount to AED 13,712 million (2018: AED 14,080 million). Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not necessarily represent expected future cash flows.

11.1 Off balance sheet exposures stage-wise analysis:

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

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

2018 AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	6,433,141	1,163,486	31,944	**7,628,571**
Allowances for impairment (ECL) (note 12.1)	(23,983)	(5,171)	(14,888)	**(44,042)**
Carrying amount	**6,409,158**	**1,158,315**	**17,056**	**7,584,529**

11.2 Movement in the gross balance of off–balance sheet exposures:

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

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

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

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

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

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to AED 83.1 million, (2018: AED 44.0 million) is classified under other liabilities.

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

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

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

2018 AED'000	Loans and advances and Islamic financing receivables and acceptances	Due from banks and financial institutions	Investments and Islamic instruments	Off-balance sheet exposures	Total	ECL rate
Stage 3	**809,461**	**-**	**-**	**14,888**	**824,349**	**52.5%**
Stage 2	188,542	1,949	-	5,171	**195,662**	**4.4%**
Stage 1	166,819	4,781	1,346	23,983	**196,929**	**0.6%**
	355,361	**6,730**	**1,346**	**29,154**	**392,591**	
Total ECL	**1,164,822**	**6,730**	**1,346**	**44,042**	**1,216,940**	**2.9%**
ECL rate	**3.9%**	**0.5%**	**0.1%**	**0.6%**		

12.2 Impairment reserve:

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

The following table analyses the movement in the impairment reserve during the year ended 31 December 2019 and 31 December 2018:

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

AED'000	Impairment reserve - General	Impairment reserve - Specific	Impairment reserve
At 01 January 2018	**113,956**	**-**	**113,956**
Reduction in excess general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	(38,696)	-	**(38,696)**
Increase in specific provision under CBUAE over stage 3 requirements under IFRS 9	-	191,180	**191,180**
	(38,696)	**191,180**	**152,484**
At 31 December 2018	**75,260**	**191,180**	**266,440**

13. 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 2018	**14,066**	**134,077**	**198,031**	**346,174**
Additions	99,600	3,128	28,242	130,970
Disposals	-	-	-	-
At 31 December 2018	**113,666**	**137,205**	**226,273**	**477,144**
At 1 January 2019	**113,666**	**137,205**	**226,273**	**477,144**
Additions	-	37,333	13,627	50,960
Disposals	-	-	-	-
At 31 December 2019	**113,666**	**174,538**	**239,900**	**528,104**
Accumulated depreciation				
At 1 January 2018	**-**	**77,631**	**148,914**	**226,545**
Charge for the year	-	4,708	21,000	25,708
On disposals	-	-	-	-
At 31 December 2018	**-**	**82,339**	**169,914**	**252,253**
At 1 January 2019	**-**	**82,339**	**169,914**	**252,253**
Charge for the year	-	14,676	22,099	36,775
On disposals	-	-	-	-
At 31 December 2019	**-**	**97,015**	**192,013**	**289,028**
Net book value				
At 31 December 2019	**113,666**	**77,523**	**47,887**	**239,076**
At 31 December 2018	**113,666**	**54,866**	**56,359**	**224,891**

During 2018, the Bank purchased plots of land amounting to AED 99.6 million for infrastructure growth and development.

13.1 Capital work-in-progress

AED'000	2019	2018
	109,896	67,157

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

14. Other assets

AED'000	2019	2018
Accrued interest / profit	293,764	220,454
Prepayments and deposits	16,116	15,232
Customer liabilities for acceptances	1,959,264	2,026,596
Fair value of derivatives	234,059	142,806
Others	280,305	31,966
	2,783,508	**2,437,054**

15. Due to banks and term borrowings

AED'000	2019	2018
By type:		
Bilateral borrowings (note 15.1)	293,840	863,155
Due to banks (note 15.2)	1,258,910	569,314
Repurchase agreements with banks	87,900	-
	1,640,650	**1,432,469**
By geographical area:		
UAE	1,061,461	354,399
GCC	112,816	36,730
Europe	232,470	687,638
Americas	221,004	183,650
Others	12,899	170,052
	1,640,650	**1,432,469**

As at 31 December 2019, due to banks include cash collateral of AED 1.7 million (2018: AED 4.7 million), in respect of positive fair value of derivatives, in accordance with the CSA agreements with the interbank counterparties.

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

Loan no.	Year obtained	Maturity	Interest rate	2019 AED'000	2018 AED'000
1	2019	Mar-20	Libor + Margin	183,650	-
2	2018	May-20	Libor + Margin	110,190	110,190
3	2018	Dec-20	Libor + Margin	-	73,460
4	2018	Jun-20	Libor + Margin	-	91,825
5	2018	Dec-19	Libor + Margin	-	55,095
6	2018	Nov-19	Libor + Margin	-	55,095
7	2018	Mar-19	Libor + Margin	-	183,650
8	2017	Jul-20	Libor + Margin	-	183,650
9	2017	Mar-19	Libor + Margin	-	55,095
10	2017	Mar-19	Libor + Margin	-	55,095
				293,840	**863,155**

No Murabaha borrowing was outstanding as at 31 December 2019 (2018: AED 183.7 million) for Shari'a - compliant Islamic window, NBF Islamic.

15.2 Due to banks include gold related borrowings amounting to AED 11.2 million (2018: AED 311.2 million) utilized to finance gold loans extended to customers on a matched basis.

16. Customer deposits and Islamic customer deposits

AED'000	2019	2018
By type:		
Demand and margin deposits	9,285,021	8,476,605
Saving deposits	391,187	299,997
Fixed term and notice deposits	22,273,522	21,695,869
	31,949,730	**30,472,471**
By geographical area:		
UAE	28,260,028	26,625,113
GCC	1,987,687	2,653,943
Europe	427,949	154,782
Americas	391,921	399,235
Others	882,145	639,398
	31,949,730	**30,472,471**

16.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha Wakala and Mudaraba deposits amounting to AED 4,589.5 million (2018: AED 4,194.4 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

17. Other liabilities

AED'000	2019	2018
Accrued interest / profit	257,236	239,554
Employee end of service and other long term benefits (note 17.1)	55,199	51,094
Accrued expenses	100,939	111,190
Directors' annual remuneration	4,800	4,800
Liabilities under acceptances	1,959,264	2,026,596
Fair value of derivatives	229,001	157,834
Allowances for impairment (ECL) for off-balance sheet items	83,127	44,042
Others	174,757	121,370
	2,864,323	**2,756,480**

17.1 Employee end of service and other long term benefits

AED'000	2019	2018
At 1 January	51,094	45,576
Charge for the year	16,995	14,939
Payments during the year	(12,890)	(9,421)
At 31 December	**55,199**	**51,094**

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 2019, 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% (2018:1.5%). 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% (2018:3.5%).

18. Shareholders' equity

18.1 Share capital

AED'000	2019	2018
Authorised, issued and fully paid:		
1,850,011,482 shares of AED 1 each (2018: 1,644,454,651 shares of AED 1 each)	**1,850,012**	**1,644,455**

18.2 Proposed cash dividends and bonus issue

The Board of Directors proposed a distribution of bonus shares of 3.5% (2018: 12.5%) of share capital and cash dividend of 10.0% (2018: 7.5%) of share capital for the year ended 31 December 2019. Accordingly, cash dividend per share amounted to AED 0.10 (2018: AED 0.075). This distribution will be paid on approval by the shareholders at the Annual General Assembly Meeting (AGAM).

18.3 Statutory and special reserve

In accordance with the Bank's Articles of Association, the provisions of Article 239 of Federal Law No. 2 of 2015, 10% of the Bank's profit for the year shall be transferred to a statutory reserve which is not distributable until such time as this reserve equals 50% of the issued share capital. Accordingly, since the aforementioned limit has been reached, profit was not appropriated to the statutory reserve during the year.

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.

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

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

19. Tier 1 capital notes

In March 2013, the Bank issued Tier 1 capital notes with a principal amount of AED 500 million (the "Capital Notes"). Issuance of these Capital Notes was approved by the Bank's Extra Ordinary General Meeting (EGM) in March 2013. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Notes bear interest at a fixed rate payable semi-annually in arrears. The Capital Notes are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Bank subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest / coupon payment. These Capital Notes have been converted to paid-up share capital on 30 September 2018 (refer note 18.4).

In March 2015, the Bank issued Tier 1 capital notes with a principal amount of AED 500 million (the "Capital Notes"). Issuance of these Capital Notes was approved by the Bank's Extra Ordinary General Meeting (EGM) in March 2013. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Notes bear interest at a fixed rate payable semi-annually in arrears during the initial period of five years, and will be reset every five years based on the then prevailing 5-year AED mid swap rate plus margin. The Capital Notes are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Bank subject to certain conditions. The Bank has also defined conditions for non-viability loss absorption and write-down in line with Basel III guidelines. The Bank may, at its sole discretion, elect not to make an interest / coupon payment. Issuance costs of AED 1.538 million were incurred. In October 2019, the Bank has completed the early buy-back of these privately placed AT1 capital notes of AED 500 million.

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

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

AED'000	2019	2018
Loans and advances and Islamic financing receivables (note 20.1)	1,703,138	1,607,736
Due from banks including the UAE Central Bank CDs (note 20.1)	139,862	98,029
Investments and Islamic instruments (note 20.2)	92,379	59,146
	1,935,379	**1,764,911**

20.1 Includes income from Islamic financing activities amounting to AED 209.1 million (2018: AED 196.8 million) for the year ended 31 December 2019.

20.2 Includes income from Islamic investment activities amounting to AED 18.6 million (2018: AED 13.0 million) for the year ended 31 December 2019.

21. Interest expense and distribution to Islamic depositors

AED'000	2019	2018
Due to banks including term borrowings	142,121	131,819
Customer deposits and Islamic customer deposits (note 21.1)	640,898	546,441
	783,019	**678,260**

21.1 Includes distribution to Islamic depositors amounting to AED 138.9 million (2018: AED 120.4 million) for the year ended 31 December 2019.

22. Net fees and commission income

AED'000	2019	2018
Fees and commission income		
Letters of credit	97,811	96,375
Letters of guarantee	62,366	54,311
Lending fees	164,335	139,112
Asset management and investment services	66	106
Commission on transfers	30,753	31,547
Others	13,182	13,428
Total fees and commission income	**368,513**	**334,879**
Fees and commission expense		
Brokerage expense	2,315	2,469
Card related charges	20,388	19,795
Other charges	3,424	3,952
Total fees and commission expense	**26,127**	**26,216**
Net fees and commission income	**342,386**	**308,663**

23. Other operating income

AED'000	2019	2018
Rental income	143	123
Rebates	9,480	9,419
Other miscellaneous income	41,714	36,738
	51,337	**46,280**

24. Employee benefits expense

Employee benefits expense includes employee bonus of AED 55.9 million (2018: AED 61.3 million). The number of employees at 31 December 2019 was 790 including 638 employed by the Bank of which 273 were UAE nationals (2018: 762 including 609 employed by the Bank of which 250 were UAE nationals).

25. Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2019 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

26. Social contributions

The social contributions made during the year to various beneficiaries amount to AED 1.7 million (2018: AED 1.6 million).

27. Net impairment losses

AED'000	2019	2018
Loans and advances and Islamic financing receivables, acceptances and off-balance sheet items	590,017	434,452
Due from banks and financial institutions	2,177	2,173
Investments and Islamic instruments	827	161
	593,021	**436,786**

28. Earnings per share

The calculation of earnings per share is based on net profit of AED 507.1 million (2018: AED 544.4 million), after deduction of AED 39.0 million (2018: AED 70.9 million) of coupon payment on Tier 1 capital notes and issuance cost of AED 6.1 million relating to AT1 capital securities issued in 2019, divided by the weighted average number of shares of 1,850.0 million (2018: 1,850.0 million shares after adjusting for bonus shares and conversion of tier 1 capital notes to paid-up share capital) outstanding during the year.

29. Related parties

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

AED'000	2019	2018
Statement of financial position items		
Loans and advances and Islamic financing receivables	2,367,755	2,101,575
Customer deposits and Islamic customer deposits	6,737,173	5,737,620
Investments and Islamic instruments	186,875	109,898
Acceptances	17,430	12,719
Tier 1 capital securities / notes	293,840	190,000
Statement of changes in equity items		
Tier 1 capital notes coupon paid	14,809	48,463
Contingent liabilities		
Letters of credit	73,232	64,510
Financial guarantees and other direct credit substitutes	85,432	87,609
Transaction related contingencies	275,431	264,508

AED'000	2019	2018
Statement of income items		
Interest income and income from Islamic financing and investment activities	88,660	91,388
Interest expense and distribution to Islamic depositors	205,932	160,226
Other income	14,571	10,962
Key management compensation		
Salaries and other short-term benefits	20,954	20,521
Employee end of service benefits	874	666
Directors' annual remuneration	4,800	4,800

No stage 3 provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables given to related parties (2018: nil).

The loans and advances and Islamic financing receivables given to related parties amounting to AED 2,367.8 million (2018: AED 2,101.6 million) have been secured against collateral amounting to AED 1,478.5 million (2018: AED 1,578.4 million).

During 2018, the Bank purchased plots of land from a related party amounting to AED 99.6 million.

30. Cash and cash equivalents

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

AED'000	2019	2018
Cash on hand	271,489	226,243
Balances with the UAE Central Bank	5,036,151	5,055,182
Due from banks with less than three months maturity	1,065,529	568,747
	6,373,169	**5,850,172**
Due to banks with less than three months maturity	(1,051,430)	(319,793)
	5,321,739	**5,530,379**

31. Segmental reporting

The Group uses business segments for presenting its segment information in line with the Group's management and internal reporting structure. The Group's operations are confined mainly in the UAE.

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

Business segments

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

Corporate and Institutional banking

Corporate and Institutional segments

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

Business banking segment

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

Retail banking

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

Treasury, Asset and Liability Management (ALM) and others

The segment undertakes the Group's asset and liability management centrally and is responsible for optimum utilization of resources in productive assets and management of exchange and interest positions within the limits and guidelines set by management and approved by the Board.

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

The Group has central shared services which include Operations, Risk Management, Human Resources, Finance, Information 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 as follows:

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

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