NBF Consolidated Financial Statements
2022

INDEPENDENT AUDITOR'S REPORT

2022

Independent auditor's report to the shareholders of National Bank of Fujairah PJSC

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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Jacques Fakhoury, Douglas O'Mahony, Murad Alnsour and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the shareholders of National Bank of Fujairah PJSC (continued)

Our audit approach

Overview

Key Audit Matters	• Measurement of Expected Credit Losses

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

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

Key audit matters

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

Independent auditor's report to the shareholders of National Bank of Fujairah PJSC (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses The Group applies Expected Credit Losses (ECL) on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2022: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal experts to assess the following areas: ● Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. ● ECL modelling methodology and calculations used to compute the Probability of Default (PD), Loss Given Default (LGD), and exposure at default (EAD) for the Group's classes of financial assets. The appropriateness of the model methodology was assessed. ● Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.

Independent auditor's report to the shareholders of National Bank of Fujairah PJSC (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 4(e) of the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions affecting the staging criteria applied to the financial assets as well as in developing ECL models and assumptions for calculating its impairment provisions.	• For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. ➢ In addition, for the Stage 3 corporate portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit file. For the Stage 3 retail portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised. ➢ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of the macro-economic environment on ECL.

Independent auditor's report to the shareholders of National Bank of Fujairah PJSC (continued)

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent auditor's report to the shareholders of National Bank of Fujairah PJSC (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

Report on other legal and regulatory requirements

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

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

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021;

(iii) the Group has maintained proper books of account;

(iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

(v) as disclosed in note 9.3 to the consolidated financial statements, the Group has not purchased or disposed any shares during the financial year ended 31 December 2022;

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

Independent auditor's report to the shareholders of National Bank of Fujairah PJSC (continued)

Report on other legal and regulatory requirements (continued)

(vii) Note 27 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2022; and

(viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022.

PricewaterhouseCoopers
25 January 2023

Rami Serhan
Registered Auditor Number 1152
Place: Dubai, United Arab Emirates

GROUP FINANCIAL STATEMENTS
2022

National Bank of Fujairah PJSC

Consolidated statement of financial position

As at 31 December 2022

	Note	2022 AED'000	2021 AED'000
Assets			
Cash and balances with the Central Bank of the UAE	*7*	9,718,922	8,006,023
Due from banks and financial institutions	*8*	2,347,975	2,129,423
Investments and Islamic instruments - fair value	*9,34*	2,699,357	2,533,683
Investments and Islamic instruments - amortised cost	*9,34*	3,650,561	1,840,653
Loans and advances and Islamic financing receivables	*10*	26,914,854	25,620,485
Acceptances	*34*	1,180,925	1,653,195
Other assets	*13,34*	665,544	769,013
Property and equipment	*14,34*	331,660	316,302
Intangibles	*14,34*	114,470	76,771
Total assets		**47,624,268**	**42,945,548**
Liabilities			
Due to banks	*15*	3,388,224	2,133,539
Customer deposits and Islamic customer deposits	*16*	35,735,934	32,198,745
Term borrowings	*15*	440,760	514,220
Acceptances	*34*	1,184,696	1,658,780
Other liabilities	*17,34*	1,024,190	764,601
Total liabilities		**41,773,804**	**37,269,885**
Equity			
Share capital	*18.1*	2,000,000	2,000,000
Statutory reserve	*18.3*	981,616	947,578
Special reserve	*18.3*	607,462	573,424
Fair value reserve		(52,192)	44,041
Proposed bonus issue	*18.2*	120,000	-
Impairment reserve	*12.2*	168,201	189,674
Retained earnings		739,827	635,396
Tier 1 capital securities	*19*	1,285,550	1,285,550
Total equity attributable to equity and securities holders of the Group		**5,850,464**	**5,675,663**
Total liabilities and equity		**47,624,268**	**42,945,548**

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 25 January 2023 and are signed on its behalf by:

Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman

Dr. Raja Easa Al Gurg
Deputy Chairperson

The notes on pages 17 to 107 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on pages 2 to 9.

National Bank of Fujairah PJSC

Consolidated statement of income

For the year ended 31 December 2022

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

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National Bank of Fujairah PJSC

Consolidated statement of comprehensive income

For the year ended 31 December 2022

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

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National Bank of Fujairah PJSC
Consolidated statement of cash flows
For the year ended 31 December 2022

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

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National Bank of Fujairah PJSC
Consolidated statement of changes in equity
For the year ended 31 December 2022

AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Proposed bonus issue	Impairment reserve	Retained earnings	Tier 1 capital securities	Total
At 1 January 2022	**2,000,000**	**947,578**	**573,424**	**44,041**	**-**	**189,674**	**635,396**	**1,285,550**	**5,675,663**
Profit for the year	-	-	-	-	-	-	340,381	-	**340,381**
Other comprehensive loss for the year	-	-	-	(96,233)	-	-	6,179	-	**(90,054)**
Total comprehensive income for the year	**-**	**-**	**-**	**(96,233)**	**-**	**-**	**346,560**	**-**	**250,327**
Excess provisions under Central Bank of the UAE requirements over IFRS 9 (note 12.2)	-	-	-	-	-	(21,473)	21,473	-	-
Tier 1 capital securities coupon paid	-	-	-	-	-	-	(75,526)	-	**(75,526)**
Proposed bonus issue	-	-	-	-	120,000	-	(120,000)	-	-
Transfer to reserves	-	34,038	34,038	-	-	-	(68,076)	-	-
At 31 December 2022	**2,000,000**	**981,616**	**607,462**	**(52,192)**	**120,000**	**168,201**	**739,827**	**1,285,550**	**5,850,464**

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National Bank of Fujairah PJSC
Consolidated statement of changes in equity
For the year ended 31 December 2021

AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Impairment reserve	Retained earnings	Tier 1 capital securities	Total
At 1 January 2021	**1,914,762**	**936,053**	**561,899**	**92,583**	**283,469**	**597,943**	**1,285,550**	**5,672,259**
Profit for the year	-	-	-	-	-	115,247	-	**115,247**
Other comprehensive loss for the year	-	-	-	(48,542)	-	10,827	-	**(37,715)**
Total comprehensive income for the year	-	-	-	**(48,542)**	-	**126,074**	-	**77,532**
Excess provisions under the Central Bank of the UAE requirements over IFRS 9 (note 12.2)	-	-	-	-	(93,795)	93,795	-	-
Tier 1 capital securities coupon paid	-	-	-	-	-	(75,526)	-	**(75,526)**
2021 bonus shares issued (note 18.1)	85,238	-	-	-	-	(85,238)	-	-
Liquidation impact of NBF Capital Limited	-	-	-	-	-	5	-	**5**
Transfer to reserves	-	11,525	11,525	-	-	(23,050)	-	-
Zakat impact (note 33)	-	-	-	-	-	1,393	-	**1,393**
At 31 December 2021	**2,000,000**	**947,578**	**573,424**	**44,041**	**189,674**	**635,396**	**1,285,550**	**5,675,663**

The notes on pages 17 to 107 form an integral part of these consolidated financial statements.
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1. Legal status and activities

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

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

The Bank has two fully owned subsidiary companies:

- NBF Financial Services FZC was established in December 2004 with limited liability status in the Fujairah Free Trade Zone to provide support services to the Bank.
- NBF Markets (Cayman) Limited is registered in the Cayman Islands as an exempted company limited by shares under the Companies Law (revised) of the Cayman Islands and regulated by the Cayman Island Government General Registry. The Company was established on 31 January 2017 to provide support services to the Bank to enter into foreign exchange and derivative transactions with financial institutions / counterparties under the terms and conditions of International Swaps and Derivatives Association (ISDA).

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

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

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

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

However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, including the threshold mentioned above, that are critical for entities to determine their tax status and the amount of tax due. Therefore, pending such important decisions by the Cabinet, the Bank has determined that the Law was not practically operational as at 31 December 2022, and so not enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. The Bank shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine its tax status and the applicability of IAS 12 – Income Taxes.

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

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

2. Disclosure policy

The Group has established a disclosure policy to ensure compliance with all applicable laws and regulations concerning disclosure of material non-public information, including International Financial Reporting Standards (IFRS), the rules of the Central Bank of the UAE and applicable requirements of the laws of United Arab Emirates.

3. Basis of preparation

Statement of compliance

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

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

4. Significant accounting policies

(a) Changes in accounting policies

New and revised IFRS adopted in the consolidated financial statements

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

4. Significant accounting policies *(continued)*

(a) Changes in accounting policies *(continued)*

New and revised IFRS adopted in the consolidated financial statements *(continued)*

Interbank offered rates (IBOR) reform disclosure – Phase 2

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

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

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

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

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

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

4. Significant accounting policies *(continued)*

New and revised IFRS adopted in the consolidated financial statements *(continued)*

Narrow-scope amendments and annual improvements to the IFRS

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

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

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

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

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

▪ **Amendments to IAS 1 Presentation of financial statements – on classification of liabilities -** These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	Deferred until accounting periods starting not earlier than 1 January 2024
▪ **Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction -** These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023
▪ **IFRS 17 'Insurance contracts'** was issued in May 2017 with amendments in June 2020 and December 2021 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2023. The management has assessed the impact of IFRS 17 and expects that the standard will have no significant effect, when applied, on the consolidated financial statements of the group.	1 January 2023

4. Significant accounting policies *(continued)*

Standards, amendments and interpretations issued but not yet effective and not early adopted *(continued)*

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

The IASB amended IAS 1, 'Presentation of Financial Statements', to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, the Board also amended IFRS Practice Statement 2, 'Making Materiality Judgements', to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendment to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023

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

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2022 that would be expected to have a material impact on the Group's consolidated financial statements.

4. Significant accounting policies *(continued)*

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

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

(d) Basis of consolidation

Subsidiaries

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

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

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

4. Significant accounting policies *(continued)*

(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.

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Classification and measurement *(continued)*

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

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

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

Financial instruments held for trading

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

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

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

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

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

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

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Classification and measurement *(continued)*

Financial assets measured at amortised cost

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

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

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

Impairment of financial assets

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

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

No ECL is recognised on equity investments.

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Stage 3: Lifetime ECL – credit impaired

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

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

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

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

Acceptances:

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

Loan commitments and letters of credit:

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

Guarantee contracts:

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

Measuring ECL

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

- Two types of PDs are used for calculating ECL
  - 12 month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures.
  - Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Measuring ECL *(continued)*

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. It varies for the types of financial assets defined in the section above.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default.

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

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

Macroeconomic variables - 2022	Scenario	Assigned probabilities	2023	2024	2025	2026	2027	Subsequent years
Oil Price (USD per barrel)	Base case	40%	92.11	73.42	69.29	69.24	70.40	84.21
	Upside	30%	95.04	79.92	81.34	78.40	70.40	84.21
	Downside	30%	64.31	59.56	64.69	67.18	68.61	82.45
UAE Gross Domestic Product (GDP) (AED billion)	Base case	40%	1,650	1,684	1,731	1,786	1,843	2,428
	Upside	30%	1,669	1,743	1,789	1,838	1,897	2,494
	Downside	30%	1,595	1,578	1,633	1,703	1,765	2,320
Stock market volatility (Delta of points)	Base case	40%	25.07	24.19	23.25	23.06	23.08	23.37
	Upside	30%	21.18	23.09	22.54	22.54	22.82	23.09
	Downside	30%	38.83	25.08	23.62	23.33	23.51	23.73

Macroeconomic variables - 2021	Scenario	Assigned probabilities	2022	2023	2024	2025	2026	Subsequent years
Oil Price (USD per barrel)	Base case	40%	71.24	63.83	64.41	66.47	69.07	83.18
	Upside	30%	73.06	68.90	70.42	72.10	74.98	89.75
	Downside	30%	44.19	46.25	52.52	56.45	60.29	76.01
UAE Gross Domestic Product (GDP) (AED billion)	Base case	40%	1,487	1,525	1,564	1,606	1,649	2,309
	Upside	30%	1,553	1,633	1,671	1,708	1,748	2,423
	Downside	30%	1,345	1,318	1,372	1,445	1,516	2,167
Stock market volatility (Delta of points)	Base case	40%	24.34	24.61	23.78	23.25	23.19	23.42
	Upside	30%	21.49	23.33	23.30	22.80	23.08	23.13
	Downside	30%	36.25	24.75	24.05	23.39	23.67	23.75

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Sensitivity analysis

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

Change in ECL due to change in macroeconomic variables	Base case	Upside	Downside
Stage 1	-11.58%	-18.39%	+38.14%
Stage 2	-8.54%	-12.95%	+3.84%

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

Determining the stage for impairment

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

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

In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECL is also based on the three-stage approach as applied to financial assets at amortised cost.

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Determining the stage for impairment *(continued)*

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

Significant increase in credit risk (SICR)

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

Quantitative factors

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

Qualitative factors

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

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

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

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

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit and Risk teams. The Group has not used the low credit exemption for any financial instruments during the year ended 31 December 2022.

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Curing Criteria - upward ECL stage movement

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

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

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

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

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

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

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

Derecognition of financial assets and liabilities

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

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

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

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Derecognition of financial assets and liabilities *(continued)*

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

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

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

Fair value measurement principles

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

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

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

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

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

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

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.

4. Significant accounting policies *(continued)*

(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.

4. Significant accounting policies *(continued)*

(f) Derivatives *(continued)*

Fair value hedges

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

Cash flow hedges

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

Hedge effectiveness testing

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

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

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

4. Significant accounting policies *(continued)*

(f) Derivatives *(continued)*

Derivatives that do not qualify for hedge accounting

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

Derivative financial instruments held or issued for trading purposes

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

Derivative financial instruments held or issued for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for economic hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as hedging of aggregate financial position exposures. Where possible, the Bank applies hedge accounting.

Forwards and futures

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

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

Swaps

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

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

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

4. Significant accounting policies *(continued)*

(f) Derivatives *(continued)*

***Swaps** (continued)*

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

Options

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

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

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

(g) Key accounting estimates and judgments

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

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

In particular, considerable management judgement is required for the following:

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

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

4. Significant accounting policies *(continued)*

(g) Key accounting estimates and judgments *(continued)*

Assessment and calculation of ECL

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

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

The Group incorporated the latest available macroeconomic inputs into the ECL model to reflect the change in the macroeconomic forecast with details covered in notes 4 (e) and 5 (c) of these consolidated financial statements.

(h) Due from banks and financial institutions

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

(i) Repossessed assets

Real estate and other collateral may be acquired as the result of settlement of certain loans and advances and Islamic financing receivables and are recorded as assets held for sale and reported in ‘other assets’. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loans and advances and Islamic financing receivables (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of income. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of income. The Group’s collateral disposal policy is in line with the respective regulatory requirement of the UAE.

4. Significant accounting policies *(continued)*

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

Property and equipment

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

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

Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal are recognized in the consolidated statement of income.

Software

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

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

The estimated useful lives for various types of assets are as follows:

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

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

Capital work-in-progress

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

(k) Government grants

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

4. Significant accounting policies *(continued)*

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

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

(m) Provisions

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

(n) Guarantees

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

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

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

(o) Employee end of services benefits

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

(p) Interest income and expense

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

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

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

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

4. Significant accounting policies *(continued)*

(q) Net fees and commission income

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

(i) Fee income earned from services that are provided over a certain period of time

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

(ii) Fee income earned from providing transaction services.

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

(r) Foreign exchange and derivatives income and Income from investments and Islamic instruments

Foreign exchange and derivatives income and Income from investments and Islamic instruments includes income from trading. Gains and losses on investments at fair value through profit or loss, are recognized in the consolidated statement of income.

(s) Dividend income

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

(t) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and balances with the Central Bank of the UAE (excluding statutory reserve) and other balances due from (excluding bills discounted) and due to banks maturing within three months. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position. Balances with the Central Bank of the UAE include certificates of deposit. In accordance with Central Bank of the UAE regulations on issuance of Central Bank certificates of deposit, the Bank can enter into repurchase agreements in order to obtain short term liquidity.

(u) Foreign currencies

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

(v) Segment reporting

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

4. Significant accounting policies *(continued)*

(w) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS / IAS, or when gains and losses arise from a group of similar transactions such as in the Group's trading activity.

(x) Earnings / (loss) per share

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

(y) Impairment of non-financial assets

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

(z) Leases

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

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount

4. Significant accounting policies *(continued)*

(z) Leases (*continued)*

of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

(aa) Acceptances

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

(ab) Repurchase agreements

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

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

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

Murabaha

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

4. Significant accounting policies *(continued)*

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

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'ah.

Wa'ad – Structured Shari'ah hedging product

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

Wakala

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

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

Istisna' forward ijara

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

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

4. Significant accounting policies *(continued)*

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

Mudaraba

In Mudaraba, the customer enters into a contract with the Group where the customer in the capacity of Rab-al-Maal will give the Group cash as capital for investment purposes. The Group, as Mudarib, shall endeavor to assist the customer in achieving the investment goals. This is the type of an unrestricted Mudaraba investment contract whereby the investment decision will be at the full discretion of the Group. All the shari'ah compliant assets and investments of Islamic window comprise the Mudaraba pool, where no expenses are charged to Mudaraba pool and all expenses are born by the Group. The customer and the Group will then share the profit (if any) from the shari'ah compliant investments made by the Group based on a pre-agreed Profit Sharing Ratio (PSR) and pre-assigned weightages. The PSR and weightages are disclosed on the website of NBF Islamic.

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

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

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

5. Financial risk management

(a) Introduction

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

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

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

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

The Bank follows the Basel III Standardized Approach for its risk and capital management. In addition, the Bank is also exposed to other risks that are managed along with the key risks, and are quantified, monitored and reported as part of the NBF's Internal Capital Adequacy Assessment Process (ICAAP) Framework. Such risks include, among others, residual risk, concentration risk, liquidity risk, interest rate risk in banking book, settlement risk, reputational risk, cyber risk, Shari'ah non-compliance risk, money laundering risk, strategic risk, business risk, and legal and compliance risk.

5. Financial risk management *(continued)*

(a) Introduction *(continued)*

The Board approved ICAAP covers these approaches and a detailed report is submitted to the Central Bank of the UAE on an annual basis.

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

(b) Governance and risk management framework

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

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

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

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

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

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

The Board sets the risk appetite, policies and has approved the Enterprise-wide Risk Management Framework. The Bank follows a three lines of defense structure with management control being the first, independent risk management oversight being the second and an independent audit assurance being the third. The principal responsibility for the execution and implementation of policies and procedures and internal controls rests with respective functions and departments in accordance with the approved framework. An independent Risk Management function carries out the oversight through independent challenge, validation and verification of risks taken by the risk taking functions and departments using methods such as review of procedures, spot checks to assess adequacy of internal controls and meeting of compliance requirements, analysis of data and forecasting and modelling. An independent internal and external audit process provides an independent assurance to the Board.

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

The Group follows Board approved whistle blowing policy where staff, customers and other stakeholders of the Bank can independently raise matters to the Head of Internal Audit.

5. Financial risk management *(continued)*

(b) Governance and risk management framework *(continued)*

The Group through the Grievance and Disciplinary Committee (GDC) comprising Head of Human Resources, Chief Risk Officer, Chief Operating Officer and Head of Retail Banking, and reporting to the CEO promotes transparent and fair dealings among staff.

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

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

Model risk management

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

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

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

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

5. Financial risk management *(continued)*

(c) Credit risk

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

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

Management of credit risk

The Credit Risk Management framework (CRMF) articulates the credit risk management activities across the key credit lifecycle stages of:

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

The CRMF includes elements of:

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

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Management of credit risk *(continued)*

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

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

Concentration risk

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

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

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

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

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Sector analysis

An analysis of sector concentrations of credit risk arising from loans and advances and Islamic financing receivables and off-balance sheet exposures is as follows:

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

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

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Geographic location analysis

Based on the location of the borrower, an analysis of geographic concentrations of credit risk arising out of loans and advances and Islamic financing receivables and off-balance sheet exposures is as follows:

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

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

Currency wise analysis

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

AED'000	2022 Funded exposure	2022 Unfunded exposure	2022 Gross exposure	2021 Funded exposure	2021 Unfunded exposure	2021 Gross exposure
AED	22,236,797	4,277,685	26,514,482	21,669,075	4,599,855	26,268,930
USD	6,022,500	1,837,013	7,859,513	5,562,305	1,477,334	7,039,639
EUR	7,260	125,541	132,801	2,001	142,458	144,459
GBP	844	4,655	5,499	622	1,354	1,976
XAU	663,746	-	663,746	552,057	-	552,057
Others	5,942	152,996	158,938	9,389	103,753	113,142
Gross amount	**28,937,089**	**6,397,890**	**35,334,979**	**27,795,449**	**6,324,754**	**34,120,203**

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Settlement risk

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

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

Risk mitigation, collateral and credit enhancements

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

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

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

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

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

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

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Risk mitigation, collateral and credit enhancements *(continued)*

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

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

As at 31 December 2022, re-possessed mortgage properties amounted to AED 110.0 million (2021: AED 326.3 million) which have been adjusted against the outstanding receivables. These have been recorded under Other Assets.

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Credit quality

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

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

Risk grades of gross loans and advances and Islamic financing receivables

	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
RR 1-19								
Grade RR 1 – 17: Performing	24,626,807	378,651	-	**25,005,458**	23,298,056	228,774	-	**23,526,830**
Grade RR 18 - 19: Watchlist	27,141	1,912,730	-	**1,939,871**	76,591	1,466,334	-	**1,542,925**
Total – RR1-19	**24,653,948**	**2,291,381**	-	**26,945,329**	**23,374,647**	**1,695,108**	-	**25,069,755**
RR 20-22: Non-performing	-	-	1,991,760	**1,991,760**	-	-	2,725,694	**2,725,694**
Total	**24,653,948**	**2,291,381**	**1,991,760**	**28,937,089**	**23,374,647**	**1,695,108**	**2,725,694**	**27,795,449**

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Loans and advances and Islamic financing receivables with renegotiated terms

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

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

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

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

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

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

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Loans and advances and Islamic financing receivables with renegotiated terms *(continued)*

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

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

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

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

Restructured portfolio during the year	2022		2021	
AED'000	**Post-modification**	**Pre-modification**	**Post-modification**	**Pre-modification**
Outstanding balance				
Stage 1	-	3,033	6,223	153,401
Stage 2	1,441	3,388	7,946	165,472
Stage 3	-	-	79,263	48,966
Allowances for impairment (ECL)	**(134)**	**(113)**	**(74,037)**	**(31,564)**
Carrying amount	**1,307**	**6,308**	**19,395**	**336,275**

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Allowances for impairment

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

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

Together with the Exposure at Default and Loss Given Default, the Bank determines the Expected Loss of each of its corporate, business banking, financial institutions and retail borrowers.

Write-off policy

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

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

(d) Liquidity risk

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

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

Management of liquidity risk

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

5. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the Central Bank of the UAE representing 20.4% (2021: 18.6%) of total assets which also include mandatory cash reserve deposits with the Central Bank of the UAE. Short-term liquid assets also include investment grade marketable securities, due from banks and financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained both under normal conditions and simulated stress scenarios.

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

	ELAR		**LSRR**	
	2022	**2021**	**2022**	**2021**
12 month – Average	**20.25%**	**20.90%**	**77.79%**	**79.68%**
12 month – Highest	**24.93%**	**26.18%**	**81.46%**	**83.69%**
12 month – Lowest	**16.04%**	**17.43%**	**72.07%**	**75.88%**

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

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

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

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

5. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

2022 AED' 000	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Cash and balances with the Central Bank of the UAE	5,362,012	569,993	2,076,732	1,710,185	-	-	**9,718,922**
Due from banks and financial institutions	1,581,139	315,922	160,356	290,558	-	-	**2,347,975**
Investments and Islamic Instruments	90,963	348,537	431,005	144,755	4,824,769	509,889	**6,349,918**
Loans and advances and Islamic financing receivables	5,565,913	5,819,645	2,980,532	1,690,610	3,981,068	6,877,086	**26,914,854**
Property, equipment and intangibles	-	-	-	-	-	446,130	**446,130**
Acceptances and other assets	315,861	1,129,267	323,566	77,775	-	-	**1,846,469**
Total assets	**12,915,888**	**8,183,364**	**5,972,191**	**3,913,883**	**8,805,837**	**7,833,105**	**47,624,268**
Due to banks	1,410,104	344,913	185,088	115,523	1,332,596	-	**3,388,224**
Customer deposits and Islamic customer deposits	22,317,884	4,452,068	3,709,060	4,067,274	1,189,648	-	**35,735,934**
Term borrowings	-	-	257,110	183,650	-	-	**440,760**
Acceptances and other liabilities	315,861	1,491,684	323,566	77,775	-	-	**2,208,886**
Total equity	-	-	-	-	-	5,850,464	**5,850,464**
Total liabilities and equity	**24,043,849**	**6,288,665**	**4,474,824**	**4,444,222**	**2,522,244**	**5,850,464**	**47,624,268**
On-Balance Sheet Gap	**(11,127,961)**	**1,894,699**	**1,497,367**	**(530,339)**	**6,283,593**	**1,982,641**	**-**
Cumulative Gap	**(11,127,961)**	**(9,233,262)**	**(7,735,895)**	**(8,266,234)**	**(1,982,641)**	**-**	**-**

2021 AED'000							
Total Assets	**12,811,055**	**9,118,610**	**4,689,475**	**2,308,612**	**9,109,531**	**4,908,265**	**42,945,548**
Total liabilities and equity	**19,377,161**	**5,594,455**	**5,724,862**	**4,526,547**	**2,046,860**	**5,675,663**	**42,945,548**
On Balance Sheet Gap	**(6,566,106)**	**3,524,155**	**(1,035,387)**	**(2,217,935)**	**7,062,671**	**(767,398)**	**-**
Cumulative Gap	**(6,566,106)**	**(3,041,951)**	**(4,077,338)**	**(6,295,273)**	**767,398**	**-**	**-**

5. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

***Management of liquidity risk** (continued)*

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

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

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

5. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

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

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

Liquidity analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2022 based on contractual undiscounted repayment obligations. However, the Group expects that substantial repayment requests will not occur on the earliest date and the amounts set out below do not represent expected cash flows.

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

5. Financial risk management *(continued)*

(e) Market risk

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

Management of market risks

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

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

Investment price risk

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

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

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Investment price risk *(continued)*

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

	Assumed level of change %	Impact on profit and regulatory capital 2022 AED'000	Impact on profit and regulatory capital 2021 AED'000
Investments classified as FVTPL			
Reference benchmarks:			
Fair value of managed funds	10%	1,988	178

	Assumed level of change %	Impact on equity 2022 AED'000	Impact on equity 2021 AED'000
Investments classified as FVOCI			
Reference benchmarks:			
Quoted debt securities / Islamic Sukuks	10%	211,436	188,597
Other investments	10%	57,090	65,025

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Currency risk

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

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

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

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

Currency	**USD**	**EUR**	**Others**
Open position			
2022 (AED'000)	**135,142**	**7,007**	**37,633**
2021 (AED'000)	**(267,395)**	**1,261**	**36,253**
Assumed change in exchange rates	5%	5%	5%
Impact on exchange income from increase in exchange rates:			
2022 (AED'000)	**6,757**	**350**	**1,882**
2021 (AED'000)	**(13,370)**	**63**	**1,813**
Impact on exchange income from decrease in exchange rates:			
2022 (AED'000)	**(6,757)**	**(350)**	**(1,882)**
2021 (AED'000)	**13,370**	**(63)**	**(1,813)**

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Currency risk *(continued)*

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

Interest rate risk

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

The Group's Treasury manages interest rate risk principally through monitoring interest rate gaps and matching the interest re-pricing profile of financial assets and liabilities. The Group's long term financial assets and liabilities are priced generally on a floating rate basis, which tracks the changes in market interest rates. Long term loans and advances and Islamic financing receivables that are priced on a fixed rate basis constitute 6.3% (2021: 10.1%) of the total loans and advances and Islamic financing receivables portfolio.

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

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Interest rate risk *(continued)*

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					
2022 (AED'000)	**97,709**	**25,606**	**(121)**	**(5,710)**	**117,484**
2021 (AED'000)	**119,572**	**25,507**	**10**	**(4,955)**	**140,134**
Impact on net interest income and net income from Islamic financing and investment activities from decrease in interest / profit rates					
2022 (AED'000)	**(97,757)**	**(26,318)**	**108**	**4,369**	**(119,598)**
2021 (AED'000)	**(84,978)**	**(32,007)**	**(27)**	**7,272**	**(109,740)**

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

Impact on net interest income and net income from Islamic financing and investment activities

	2022		2021	
bps	**Upward shift**	**Downward shift**	**Upward shift**	**Downward shift**
25	2.41%	-2.45%	3.72%	-3.51%
50	4.81%	-4.90%	7.44%	-5.88%
100	9.62%	-9.79%	14.89%	-11.66%

Impact on regulatory capital

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

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

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Interest rate risk *(continued)*

The Group's interest rate gap position on financial assets and liabilities based on the earlier of contractual re-pricing or maturity date is as follows:

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

Interest rate yields

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

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

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	**Assets**	**Liabilities**	**Notional**
2022	**AED'000**	**AED'000**	**AED'000**
Derivatives held as fair value hedges			
Interest rate swaps	1,812	-	88,902
Total derivative financial instruments	**1,812**	**-**	**88,902**

Hedging instrument			
2021			
Derivatives held as fair value hedges			
Interest rate swaps	-	5,302	178,141
Total derivative financial instruments	**-**	**5,302**	**178,141**

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Derivative financial instruments *(continued)*

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

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

Hedging instrument

2022 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	-	12,856	-	36,730	39,316	-	**88,902**
	-	**12,856**	**-**	**36,730**	**39,316**	**-**	**88,902**

2021 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	-	-	-	128,555	49,586	-	**178,141**
	-	**-**	**-**	**128,555**	**49,586**	**-**	**178,141**

(f) IBOR Reforms

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

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

5. Financial risk management *(continued)*

(f) IBOR Reforms *(continued)*

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

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

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

Financial assets:

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

Currency	2022 AED'000	2021 AED'000
USD	1,697,517	3,694,600
EUR	-	4,099
	1,697,517	**3,698,699**

Financial liabilities:

The Group has floating-rate liabilities indexed to IBORs of AED 178.7 million (2021: AED 803.1 million) denominated in USD.

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

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

5. Financial risk management *(continued)*

(f) IBOR Reforms *(continued)*

Financial liabilities *(continued)*

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

2022	Nominal amount AED'000	Average Maturity (Year)
Interest rate swap		
LIBOR 3 month	-	-
LIBOR 6 month	49,586	0.5
	49,586	**0.5**

(g) Operational risk

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

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

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

The regulatory risk capital charge allocation with respect to Operational Risk is computed based on the Standardized Approach. However, the Bank, as part of the ICAAP, computes the risk capital charge allocation for Pillar 2 risks related to residual risk, settlement risk, reputational risk, cyber risk, Shari'ah non-compliance risk, money laundering risk, strategic risk and legal and compliance risk through an internally designed but externally independently validated scorecard approach which encompasses a broad range of best industry practices including the regulatory requirements and guidance issued from time to time, locally and internationally.

5. Financial risk management *(continued)*

(h) Management of capital

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

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

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

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

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

In implementing capital requirements, the Group calculates its capital adequacy ratio in accordance with the 'Capital Adequacy Regulations' issued by the Central Bank of the UAE. The Central Bank of the UAE introduced the implementation of Basel III reporting which the Group has adopted and has also developed and implemented risk management measurement tools and robust practices to become a Basel III compliant bank. The Central Bank of the UAE places considerable emphasis on the ICAAP and the Group has developed an economic capital model to comply with the Central Bank of the UAE requirements.

5. Financial risk management *(continued)*

(h) Management of capital *(continued)*

Regulatory Capital

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

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

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

   a. Tier 1 capital – at least 8.5% of RWA, composed of:
      - Common equity Tier 1 (CET1) – at least 7.0% of RWA; and
      - Additional Tier 1 (AT1)

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

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

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

5. Financial risk management *(continued)*

(h) Management of capital *(continued)*

Minimum transitional arrangements as per Central Bank of the UAE

Capital element	Basel III 2022	Basel III 2021
Minimum common equity tier 1 ratio	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%
Capital conservation buffer	2.5%	2.5%

Capital Stress Testing:

The Group carried out and submitted to the Central Bank of the UAE stress testing exercise in accordance with the macroeconomic and business scenarios prescribed by the Central Bank of the UAE through its related guidelines. The results also included the mitigation plan / management action in response to the impact of the stress scenario on the capital adequacy of the Group. The Group passed the Central Bank of the UAE stress test.

The stress testing exercise achieves the following objectives:

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

Capital Allocation:

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

5. Financial risk management *(continued)*

(h) Management of capital *(continued)*

	2022 AED'000	2021 AED'000
CET1 capital		
Share capital	2,000,000	2,000,000
Statutory reserve	981,616	947,578
Special reserve	607,462	573,424
Retained earnings	859,827	635,396
IFRS 9 transitional arrangement – ECL (stage 1 and 2) impact	145,679	18,738
Accumulated other comprehensive income	(52,192)	19,818
Regulatory deductions - intangibles	(49,732)	-
CET1 total	**4,492,660**	**4,194,954**
Additional Tier 1 (AT1) Capital		
Tier 1 capital securities (note 19)	1,285,550	1,285,550
Total Tier 1	**5,778,210**	**5,480,504**
Tier 2 Capital		
Collective impairment provision	377,362	344,866
Total Tier 2	**377,362**	**344,866**
Total capital base (a)	**6,155,572**	**5,825,370**

Risk weighted assets

	2022 Risk-weighted equivalent AED'000	2021 Risk-weighted equivalent AED'000
Credit risk	30,188,941	27,589,268
Market risk	58,816	41,298
Operational risk	2,902,177	2,850,595
Total risk weighted assets (b)	**33,149,934**	**30,481,161**
Capital adequacy ratio (a) / (b) - %	**18.6**	**19.1**
Tier 1 ratio - %	**17.4**	**18.0**
Common equity Tier 1 ratio (CET 1) - %	**13.6**	**13.8**

5. Financial risk management *(continued)*

(h) Management of capital *(continued)*

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

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

Apart from credit, market and operational risk covered in Pillar 1, the ICAAP report covers other material risks such as residual risk, concentration risk, liquidity risk, interest rate risk in banking book (IRRBB), settlement risk, reputational risk, strategic risk, and cyber risk. ICAAP Stress Testing details, assumptions, methodology and results are documented in a separate stress testing manual that covers all aforementioned Pillar 1 and Pillar 2 risks.

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

Claims on sovereigns

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

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

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

Claims on multilateral development banks (MDBs)

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

Claims on banks

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

5. Financial risk management *(continued)*

(h) Management of capital *(continued)*

Risk weights for credit risk *(continued)*

Claims on corporate portfolio

Claims on corporates 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 Central Bank of the UAE guidelines. Claims which do not meet the criteria are assigned risk weights of 100%.

Claims secured by residential property

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

Claims secured by commercial property

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

Past due exposures

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

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

Equity portfolios

Equity in banking book is risk weighted at 150%.

Other exposures

These are risk weighted at 100%.

5. Financial risk management *(continued)*

(h) Management of capital *(continued)*

Credit risk and risk weights

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

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

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

5. Financial risk management *(continued)*

(h) Management of capital *(continued)*

Credit risk and risk weights *(continued)*

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

Market risk and risk weights

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

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

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

Operational risk and risk weights

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

6. Financial assets and liabilities

6.1 Classification and measurement

The fair values and carrying values of the financial assets and liabilities at 31 December 2022 and 2021 are as follows:

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

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

6. Financial assets and liabilities *(continued)*

6.1 Classification and measurement *(continued)*

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

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

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

6.2 Fair value measurement – fair value hierarchy:

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

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

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

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

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

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

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

8. Due from banks and financial institutions

8.1 By type

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

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

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

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

8.2 By currency

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

8. Due from banks and financial institutions *(continued)*

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

	2022 AED'000	2021 AED'000
The dispersion of due from banks and financial institutions portfolio based on the redistribution of risk is set out below:		
UAE	451,764	467,546
GCC	419,516	231,268
Europe	848,764	724,111
Americas	238,385	225,384
Others	395,080	489,500
	2,353,509	**2,137,809**
Less: Allowances for impairment (ECL) (note 12.1)	(5,534)	(8,386)
	2,347,975	**2,129,423**

8.4 **Based on external credit ratings**:

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

8. Due from banks and financial institutions *(continued)*

8.5 Stage-wise analysis

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

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

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

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

9. Investments and Islamic instruments

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

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

9. Investments and Islamic instruments *(continued)*

9.2 Debt securities aggregating AED 5,659.8 million (2021: AED 3,650.3 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices of which are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions. The debt securities portfolio includes floating rate securities amounting to AED 640.9 million (2021: AED 748.3 million).

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

Debt securities portfolio include additional tier 1 perpetual bonds of AED 114.3 million (2021: AED 78.3 million).

9.3 Other investments include various funds whose fair values are based on the net asset values provided by the fund managers, amounting to AED 569.8 million (2021: AED 649.2 million). No shares were purchased by the Bank during the year (2021: nil).

9.4 The dispersion of the investment portfolio is as follows:

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

9.5 By geographical area:

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

	2022 AED'000	2021 AED'000
The dispersion of investment portfolio based on the redistribution of risk is set out below:		
UAE	1,518,337	1,777,386
GCC	627,767	942,815
Europe	1,849,110	319,589
Americas	1,097,457	320,697
Others	1,272,240	1,020,123
	6,364,911	**4,380,610**
Less: Allowances for impairment (ECL) (note 12.1)	(14,993)	(6,274)
	6,349,918	**4,374,336**

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

9. Investments and Islamic instruments *(continued)*

9.6 By currency:

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

9.7 Based on external credit ratings:

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

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

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

9. Investments and Islamic instruments *(continued)*

9.8 Debt investments and Islamic instruments stage-wise analysis

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

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

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

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

10. Loans and advances and Islamic financing receivables

10.1 By type:

	2022 AED'000	2021 AED'000
Overdrafts	2,153,354	2,289,408
Term loans	20,081,844	19,982,404
Loans against trust receipts	4,023,558	2,990,319
Bills discounted	2,292,094	2,239,960
Bills drawn under letters of credit	386,239	293,358
Gross loans and advances and Islamic financing receivables	**28,937,089**	**27,795,449**
Allowance for impairment losses (ECL) (note 12.1)	(2,022,235)	(2,174,964)
Net loans and advances and Islamic financing receivables	**26,914,854**	**25,620,485**

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

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

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

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

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

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

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

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

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

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

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

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

ECL - AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance - 31 December 2020	**260,462**	**562,772**	**1,385,622**	**2,208,856**
Transferred from Stage 1	(7,023)	7,843	24,562	**25,382**
Transferred from Stage 2	12,983	(275,752)	385,885	**123,116**
Transferred from Stage 3	-	622	(5,537)	**(4,915)**
Originated / (derecognized) during the year including changes in PDs / LGDs / EADs	12	(53,235)	781,310	**728,087**
Net allowance for impairment losses	**5,972**	**(320,522)**	**1,186,220**	**871,670**
Written-off during the year	-	-	(905,562)	**(905,562)**
ECL allowance - 31 December 2021	**266,434**	**242,250**	**1,666,280**	**2,174,964**

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:

	2022 AED'000	2021 AED'000
Contingent liabilities:		
– Letters of credit covering movement of goods	1,266,531	1,230,156
– Financial guarantees and other direct credit substitutes	827,984	656,527
– Bid bonds, performance bonds and other transaction related contingencies	4,303,375	4,438,071
	6,397,890	**6,324,754**
Commitments:		
– Undrawn irrevocable commitments – credit related	90,022	77,111
– Commitments for future capital expenditure	126,734	96,650
	216,756	**173,761**
	6,614,646	**6,498,515**

The total undrawn commitments which are revocable at the discretion of the Bank amount to AED 13,838 million (2021: AED 10,864 million). Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not necessarily represent expected future cash flows.

11. Contingent liabilities and commitments *(continued)*

11.1 Off balance sheet exposures stage-wise analysis

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

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

	2021			
AED'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Outstanding balance	5,489,636	153,273	481,505	**6,124,414**
Allowances for impairment (ECL) (note 12.1)	(17,478)	(1,547)	(69,017)	**(88,042)**
Carrying amount	**5,472,158**	**151,726**	**412,488**	**6,036,372**

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

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

Outstanding balance – AED' 000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount – 31 December 2020	**5,674,286**	**950,537**	**189,348**	**6,814,171**
Transferred from Stage 1	(14,108)	13,783	325	-
Transferred from Stage 2	310,358	(682,203)	371,845	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(480,900)	(128,844)	(80,013)	**(689,757)**
Written-off during the year	-	-	-	-
Gross carrying amount – 31 December 2021	**5,489,636**	**153,273**	**481,505**	**6,124,414**

11. Contingent liabilities and commitments *(continued)*

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

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

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

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to AED 100.6 million (2021: AED 88.0 million) is classified under other liabilities.

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

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

2022
AED'000

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

2021
AED'000

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

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

12.2 *Impairment reserve*

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

The following tables analyse the movement in the impairment reserve during the year ended 31 December 2022 and 31 December 2021:

AED'000	**Impairment reserve - General**	**Impairment reserve - Specific**	**Impairment reserve**
At 1 January 2022	**-**	**189,674**	**189,674**
Change in general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	-	-	-
Reduction in excess specific provision under CBUAE over stage 3 requirements under IFRS 9	-	(21,473)	(21,473)
	-	**(21,473)**	**(21,473)**
At 31 December 2022	**-**	**168,201**	**168,201**

AED'000	**Impairment reserve - General**	**Impairment reserve - Specific**	**Impairment reserve**
At 1 January 2021	**-**	**283,469**	**283,469**
Change in general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	-	-	-
Reduction in excess specific provision under CBUAE over stage 3 requirements under IFRS 9	-	(93,795)	(93,795)
	-	**(93,795)**	**(93,795)**
At 31 December 2021	**-**	**189,674**	**189,674**

13. Other assets

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

14. Property, equipment and intangibles

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

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

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

14. Property, equipment and intangibles *(continued)*

14.1 Capital work-in-progress

	2022 AED'000	2021 AED'000
Property and equipment	132,805	109,416
Intangibles	64,738	37,642
At 31 December 2022	**197,543**	**147,058**

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

15. Due to banks and term borrowings

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

As at 31 December 2022, due to banks include cash collateral of AED 74.3 million (2021: AED 10.5 million), in respect of positive fair value of derivatives, in accordance with the agreements with the interbank counterparties.

The investment securities under repo agreements amounted to AED 2,081.0 million (2021: AED 1,345.3 million). The accounting policy pertaining to the treatment of these transactions is explained in note 4 (ab).

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

15. Due to banks and term borrowings *(continued)*

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

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

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

16. Customer deposits and Islamic customer deposits

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

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

17. Other liabilities

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

17.1 Employee end of service and other long term benefits

	2022 AED'000	2021 AED'000
At 1 January	57,779	55,465
Charge for the year	22,322	15,419
Payments during the year	(12,803)	(13,105)
At 31 December	**67,298**	**57,779**

17. Other liabilities *(continued)*

Provision for employees' end of service benefits

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2022, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method, an assessment has been made of employees' expected service life with the Group and the expected basic salary at the date of leaving the service. The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3.5% (2021: 3.5%).

18. Shareholders' equity

18.1 *Share capital*

	2022 AED'000	2021 AED'000
Authorised, issued and fully paid:		
2,000,000,000 shares of AED 1 each (2021: 2,000,000,000 shares of AED 1 each)	2,000,000	2,000,000

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

18.2 *Proposed cash dividends and bonus issue*

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

18.3 *Statutory and special reserve*

In accordance with the Bank's Articles of Association, the provisions of Article 239 of Federal Law No. 2 of 2015, 10% of the Bank's profit for the year shall be transferred to a statutory reserve which is not distributable until such time as this reserve equals 50% of the issued share capital. Additionally, in accordance with the Bank's Articles of Association, another 10% of the Bank's profit for the year shall be transferred to a special reserve which is to be used for purposes to be determined by the AGAM upon the proposal of the Board of Directors.

19. Tier 1 capital securities

In October 2019, the Bank issued US$ 350 million (AED 1,285.6 million) regulatory Additional Tier 1 (AT1) capital securities which has been classified as equity in accordance with IAS 32: Financial Instruments – Classification. These securities are perpetual, subordinated and unsecured. The Bank can elect not to pay a coupon at its own discretion and has an option to call back the securities in addition to allowing the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of CBUAE. The transaction costs relating to the issuance were accounted for as a deduction from equity.

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

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

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

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

21. Interest expense and distribution to Islamic depositors

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

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

22. Net fees and commission income

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

23. Foreign exchange and derivatives income

	2022 AED'000	2021 AED'000
Foreign exchange income	153,174	104,250
Derivatives income	28,203	9,942
	181,377	**114,192**

24. Other operating income

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

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

25. Employee benefits expense

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

26. Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2022 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

27. Social contributions

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

28. Net impairment losses

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

29. Earnings per share

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

30. Related parties

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

	2022 AED'000	2021 AED'000
Statement of financial position items		
Loans and advances and Islamic financing receivables	3,583,048	3,534,719
Customer deposits and Islamic customer deposits	8,814,053	7,998,573
Investments and Islamic instruments	147,650	75,449
Acceptances	21,095	33,988
Tier 1 capital securities	293,840	293,840
Contingent liabilities		
Letters of credit	56,093	65,669
Financial guarantees and other direct credit substitutes	58,085	59,572
Transaction related contingencies	269,644	276,729

	2022 AED'000	2021 AED'000
Statement of changes in equity items		
Tier 1 capital securities coupon paid	17,264	17,264
Statement of income items		
Interest income and income from Islamic financing and investment activities	130,889	74,373
Interest expense and distribution to Islamic depositors	183,132	128,041
Other income	10,619	11,449
Operating expenses	29,038	17,687
Key management compensation		
Salaries and other short-term benefits	24,607	21,566
Employee end of service benefits	1,249	769
Board Committees attendance allowances	5,500	4,400

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

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

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

31. Cash and cash equivalents

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

	2022 AED'000	Restated 2021 AED'000
Cash on hand	381,485	272,685
Balances with the Central Bank of the UAE	2,499,098	3,887,849
Due from banks with less than three months maturity	1,394,215	1,360,922
	4,274,798	**5,521,456**

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

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

32. Segmental reporting

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

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

Business segments

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

Corporate and Institutional banking

Corporate and Institutional segments

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

Business banking segment

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

32. Segmental reporting *(continued)*

Business segments *(continued)*

Retail banking

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

Treasury, Asset and Liability Management (ALM) and others

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

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

The Group has central shared services which include Operations, Risk Management, Human Resources, Finance, Information systems and Technology, Product Development, Legal, Credit and Internal Audit. The shared services costs are allocated to business segments based on transaction and relevant drivers.

The segment analysis based on business segments is as follows:

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

32. Segmental reporting *(continued)*

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

33. Zakat payable

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

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

34. Comparative figures

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

Consolidated statement of financial position

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

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

34. Comparative figures *(continued)*

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

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

Consolidated statement of cash flows

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