بنك أم القيوين
NBQ

2022 INTEGRATED REPORT

National Bank of Umm Al Qaiwain (P.S.C), is Licensed by the Central Bank of the UAE

CORPORATE GOVERNANCE REPORT - 2022

National Bank of Umm Al Qaiwain P.S.C. Licensed by Central Bank of the UAE

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CORPORATE GOVERNANCE REPORT

1- Introduction

National Bank of Umm Al Qaiwain (the 'Bank' or 'NBQ' or "Group") is a Public Shareholding Company incorporated in Umm Al Qaiwain by Amiri Decree Number (1) on 5 January 1982 issued by His Highness, the Ruler of Umm Al Qaiwain and commenced its operations with effect from 1 August 1982. The local government of Umm Al Qaiwain is the largest shareholder and promoter of the Bank. The Bank is engaged in providing Retail and Corporate banking services through a network of 11 branches in the United Arab Emirates (UAE). The Bank maintains consistently high capital adequacy and liquidity ratios which demonstrates the financial resilience developed through robust Corporate Governance and financial disciplines.

2-Vision, Mission and Values

Our Vision

To be a bank of first choice, offering innovative financial services, built on trust, integrity and driven by a passion for excellence.

Our Mission

To maximize value and growth for all our stakeholders by delivering premium banking services and attracting and retaining our target customer groups.

Our Core Values

People orientation, customer orientation, performance.

1- **Customer**
   - service excellence
   - customer confidentiality
   - meet and exceed customer expectations

2- **Performance**
   - Recognize and reward outstanding performance
   - Ensure continuous productivity
   - Focused on efficiency
   - Delegate authority, responsibility and empowerment
   - Committed to learning and development

3- **People**
   - Personal integrity
   - Open communications
   - Value and recognize teamwork

3. Corporate Governance System, Procedures and Implementation

The Bank has robust corporate governance policies and highly effective risk management functions, which contribute to the success of the organizational goals and this augments its culture. It has the highest standards of corporate governance, which provides confidence and trust to our stakeholders. The Bank has a Board consisting of seven members – they all have the requisite industry knowledge and have Board committees with specific functional responsibilities. The Bank has framed policies to ensure that the Directors are involved in the Bank and work in its best interests. The Board also provides strategic direction to the senior management. The majority of the Directors are independents and the Bank complies with the requirements of Securities and Commodities Authority, ADX and Central Bank of UAE.

First line of defense	: Business units
Second line of defense	: Support units and control functions
Third line of defense	: Assurance and auditing

Note: Please also refer to the Corporate Governance Section contained in the Annual Report. We have committees as explained below and they are governed by properly mandated Charters that are approved by the Board of Directors. Charters are reviewed periodically and suitable changes are made based on the industry changes and changes in the internal controls environment.

4. Internal Control, Risk Management Governance Matters

NBQ Internal Control Framework provides a common understanding of the internal control responsibilities of all Bank's employees. The effective internal control system is a basic standard for both the operational and financial integrity of results, and is an integral component of a well-managed, quality operation.

The main objective of internal control system in NBQ is to assist the bank perform better using its resources. Through internal control system, the bank identifies its weaknesses and takes appropriate measures to overcome the same.

Primary Objectives of Internal Control:

- Efficiency and effectiveness of activities (performance objectives).
- Reliability, completeness and timelines of financial and management information.
- Compliance with applicable laws and regulations (compliance objectives).
- Ensure systematic and orderly recording of transactions.
- Provide reasonable assurance that undesired events will be prevented or detected and corrected.

NBQ internal Control Framework is a set of principles structured into five interrelated components:

Control Environment: • Demonstrate Commitment to integrity and ethical values • Establishing oversight responsibilities • Founding Structure, Responsibility, and Authority • Exhibit Commitment to Competence, Enforce Accountability	**Risk Assessment:** • Define Objectives & Risk Tolerance • Identify, analyze & respond to risk • Assess fraud risk • Analyze response to change Risk appetite is established and aligned with strategy while serving as a basis for identifying, assessing, and responding to risk.

Control Activities: • Design control activities • Design activities for the information System • Implement Control activities Risks that may impact the accomplishment of strategy and business objectives need to be identified and evaluated. Risks are ranked by severity in the context of risk appetite. The organization then selects risk responses and takes a portfolio view of the amount of risk it has assumed. The results of this process are reported to key risk stakeholders	**Information & Communication** • Use Quality information • communicate internally • communicate externally Continual process of obtaining and sharing necessary information, from both internal and external sources, which flows up, down, and across the Bank.
Monitoring • Perform Monitoring Activities • Remediate Deficiencies	

NBQ internal Control frame work mandates all business units of NBQ to support and maintain a system of internal control that is optimized to provide stockholders, the Board of Directors, and management with an assurance, based on a weighing of costs and benefits, that:

- Transactions are executed in accordance with Management's general or specific authorization.
- Transactions are recorded as necessary,
- To permit preparation of financial statements in conformity with generally accepted accounting principles.
- To maintain accountability and responsibility for assets and bank resources.
- Transactions are consummated at reasonable cost, beneficial and necessary for the business of the Bank.
- Access to assets and resources is permitted only in accordance with management's general or specific authorization.
- Recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.
- Financial information is released outside access bank only upon proper corporate authorization and after consideration of the interest of the bank.
- Complete and accurate records and accounts are maintained to reflect transactions and the disposition of assets.
- Business Objectives will be met.
- Compliance with Applicable and Regulations of Other Regulatory Agencies

Basel Implementation

NBQ adheres to CBUAE guidelines issued for Basel III compliance vide notice CBUAE/BSD/N/2020/4980, including submission of annual ICAAP report to Central Bank of the UAE. During the year 2022, CBUAE published ICAAP guidelines vide notification CBUAE/BSD/2022/5280 dated 30/12/2022.

Stress tests are regularly carried to assess credit risk, liquidity risk and interest rate risk in the banking book and equity price risk. Results reveal that NBQ is comfortably placed in line with the risk profile and there is substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks as well.

Risk Management

Risk department comprises of Credit Risk, Market Risk, Operational Risk, Information security compliance and Fraud Risk Management Units. Its key responsibilities include (i) Supporting the Board to review and approve bank wide risk governance framework and implement the same.(ii) Developing a risk governance, risk management framework, risk appetite and policies and procedure to facilitate business to grow within acceptable risk criteria.(iii) Identifying material individual, aggregate and emerging risks, (iv)Assess and measure these risks (v)Ongoing monitoring to ensure risk taking activities and risk exposure are in line with the Board approved risk appetite, risk limits and corresponding capital or liquidity needs. (vi) Establishing an early warning or trigger system to ensure that breaches to the risk appetite are reported to the Risk committee/Board (vii) Influencing and when necessary challenging material risk decision (viii) Periodic reporting of risk matters to Senior Management and the Board or Board

Risk committee (ix) Planning the Bank's ICAAP and Capital Management analysis, including Pillar II capital assessment models and Stress Testing; and other Basel III reporting (x) Developing and managing the Bank's IFRS9 Model models and computation of of ECL, ensuring appropriate governance controls are in place and in line with internal and regulatory expectations (xi) Conflict of interest in all credit matters is avoided. Underwrites do not have any business targets

Compliance Function

The compliance department of the Bank acts as 2nd line of defense. The department functions under the guidelines issued by CBUAE, FIU and international agencies on various aspects of Customer onboarding, KYC/CDD, Sanctions Screening, AML/CFT transaction monitoring, Regulatory guideline implementation and reporting. During the year, the compliance department was strengthened by the recruitment of staff in key functional areas of Quality Assurance and MLRO and introduction of a new AML monitoring system. The department has a direct reporting to the Board Risk Committee which act as a platform for discussing and guidance on regulatory matters. Moreover the department also makes presentations to the Audit Committee as well as the Board of Directors to appraise them on critical matters relating to compliance. The Board is actively involved in providing action points as well as guidance to ensure that all the requirements as laid out in the regulations as well as the Law of the country are adhered to. The compliance team members are qualified and trained to handle the various desks handled by them.

Senior Management

Senior management staff as per the regulatory definition includes Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Internal Audit and Head of Compliance. Bank maintains a fit and proper guide for the recruitment of the senior management officials and obtains the approval of Central Bank after the candidate is identified by the Bank and approved at the Nominations and Remunerations Committee. Remuneration structure is also fixed and assessed at the Board Committee level and revised as their decisions. NBQ has an efficient team of Senior Management officials who are experienced and qualified in discharging key management functions. They are delegated with the responsibility of managing the affairs of the bank in a professional manner while managing the internal control, compliance, governance with risk management focus. Board of Directors through their Committees directs the Senior Management Team to apply due diligence and caution to protect the interests of the bank and its shareholders.

5- Statement of Ownership and Transactions of Board Members, Spouses ,and Children During 2022

Total sale and purchase transactions during 2022 is: Nil

6- Board of Directors and Their Details

Board Composition, Appointment and Period of Membership

NBQ is a listed company and is established as per the UAE laws and in accordance with the Federal Laws related to commercial companies. As per the Articles of Association (Article No:19) bank's activities are overseen by seven elected directors including Chairman and Vice Chairman. These directors are elected for a period of three years.

The present directors were elected in the Annual General Meeting held on 15/03/2020, and term ends in 2023 and hence election of the Board of Directors are to be held in the Annual General Meeting to be held on 9th March 2023.

In 2022, Board was composed of 4 Independent, Non-executive Directors and 3 Non-independent, Non-executive Directors as of 31/12/2022.

Selection of the Board of Directors

Board members are elected through a process of secret Ballot and nominations are screened at the Nominations and Remunerations Committee which is held for the purpose. All the nominations are screened thoroughly with the qualifications and experience the candidates possess.

Publication for the nomination for the Board membership will be done in the newspapers as prescribed by the law and it would be kept open for the period of at least ten days and the list of candidates is sent to the Central Bank of the UAE for approval.

Based on the Central Bank's approval, Board Secretary shall call a meeting of the Nominations and Remunerations Committee for the review and validation of the final short list of the candidates. The proceedings of the meetings will be minuted for records and for future references. Final list is then sent to the Securities and Commodities Authority and Abu Dhabi Securities Exchange and published in the official website of NBQ.

Responsibilities of the Board of Directors

Board of directors are responsible for all the activities of the bank ranging from establishing a corporate governance framework, establishing risk management strategies, maintaining internal control culture and processes, developing long term strategies and creating corporate values.

Their main responsibilities include but not limited to the following:-

- Developing a strong risk culture through its operations within the established risk appetite and risk limits set for the transactions considering the competitive and regulatory landscape.
- Setting strategies which uphold the corporate values and create targets and expectations to the Senior Management through the Key Performance Indicators for their performance.
- Ensure that all the business is conducted in a legal and ethical manner across the functions and rendering the Senior Management responsible for any violations.
- Maintain proper communication with the Senior Management in all important and critical matters and render them accountable for actions which are not as per the expectations of the board.

In short, Board must ensure that Senior Management acts as per the expectations of the Board in implementing systems, processes, controls and apply proper risk management strategies as per the regulatory standards and ethical standards set which includes independent risk management, internal control and Audit and Compliance functions

Sr	Name	Category (executive, non-executive, and independent)	The period spent as a Board member from the date of the first election	Membership and positions at any other joint-stock companies	Positions in any other important regulatory, government or commercial positions
1	H.H. Sheikh Rashid Bin Saud Al Mualla	Non-executive Non-independent	Approx. 12 years. (Elected as Chairman of NBQ in February 2011)	Chairman of the Board of Directors of National Bank of Umm Al Qaiwain psc	H H Shk. Rashid is the Crown Prince of Umm Al Qaiwain Emirate and the Chairman of Executive Council of Umm Al Qaiwain.
2	Shk. Nasser Rashid AbdulAziz Al Moalla.	Non-executive Non-independent	Since 1982 (41 years)	1)National Bank of Umm Al Qaiwain: Vice-Chairman of the Board of Directors of NBQ and Chairman of the Executive Committee and the Credit Committee and member of Nominations and Remuneration Committee 2)Union Insurance company PSC: Chairman of the Board of Directors	N/A
3	Mr Marwan Abdulla Hassan Al Rostamani	Non-executive Non-independent	Approx. 17 years. (Elected in 2006)	1) Al Rostamani Group: Chairman of the Board of Directors 2)Dubai Insurance Company: Vice-Chairman of the Board of Directors 3)National Bank of Umm Al Qaiwain: Member of the Board of Directors of National Bank of UAQ & Chairman of Nominations & Remuneration Committee & member of Real Estate Evaluation Review Committee.	N/A

4	Shaikh Sager Saud Rashed Ahmed Al Mualla.	Non-executive Independent	15 March 2020 till date	National Bank of Umm Al Qaiwain: Member of the Board of Directors of National Bank of UAQ and Chairman of Real Estate Evaluation Review Committee and member of Executive Committee and the Credit Committee	Chairman, Smart Government Department in UAQ
5	Mr.Abdulla Mohamed Salih Al Zarooni	Non-executive Independent	Approx. 6 years. (Elected in 2017)	1)National Bank of Umm Al Qaiwain: Member of the Board of Directors of National Bank of UAQ and Chairman of Audit Committee and member of Risk Committee and member of Executive Committee and member of the Credit Committee. 2) Al Buhaira National Insurance psc Co: Member of the Board of Directors of Al Buhaira National Insurance Co Psc since 2022.	Member of the Board of Directors of Marsa Umm Al Quwain LLC
6	Mr.Ali Rashed Sultan AlKaitoob	Non-executive Independent	15 March 2020 till date	1)National Bank of Umm Al Qaiwain: Member of the Board of Directors of National Bank of UAQ and Chairmain of the Risk Committee, and member of Audit Committee and member of Real Estate Evaluation Review Committee and member of Nominations and Remuneration Committee, from 15 March 2020 till date. 2) Union Insurance psc Co : Vice-Chairman of the Board of Directors and Chairman of Audit Committee, from 10-June-2021 till date.	Registered Accounting and Banking Expert in Dubai Court (Government).
7	Mr.Ahmed Mohamed Dhaen Al Nuaimi.	Non-executive Independent	15 March 2020 till date	National Bank of Umm Al Qaiwain: Member of the Board of Directors of National Bank of UAQ and member of Audit Committee and member of Risk Committee.	N/A

Female Representation in the Board - 2022

The election of the Board of Directors for the three years was made on 15 March 2020. Due to the non-availability of any other candidates during the AGM meeting of 15/03/2020, there was no female representation for the Board election period from 2020 to 2023. The Bank agreed to comply with the requirement of the Corporate Governance guidelines regarding female representation and will continue with the same, however, NBQ did not receive any nominations from any female candidates during the AGM for the year 2020.

Board of Directors Remuneration

According the Laws and Articles of Association, Board of director's remuneration should not exceed 10% of the annual profit. As such, the Board of Directors remuneration is proposed by the Board and is approved at the Annual General Meeting every year. No sitting fees are payable to the Directors for attending the Board meetings.

1-Total remunerations paid to the Board members for the fiscal year 2021:

The shareholders approved the remuneration of the Board of Directors of AED 2,800,000/- (in addition to the value-added tax of 5%) for the fiscal year 2021, through the Annual General Assembly meeting of the National Bank of Umm Al Qaiwain held on 14 March 2022.

2-Proposal concerning the remuneration of the members of the Board of Directors for the year 2022:

The proposal concerning the remuneration of the members of the Board of Directors for the year 2022 will be presented at the Annual General meeting to be held on 9th March 2023, a proposal will be AED 2,800,000/- ,The decision to adopt the remuneration proposal will be left to the General Assembly. There are no allowances, salaries or additional fees received by a member of the Board of Directors in 2022, other than allowances for attending Board Sub committees.

7- Board Meetings

The number of the Board of Directors meetings held during the 2022 fiscal year along with their convention dates, personal attendance times of all members, and members attending by proxy:

During the year 2022, Eight (8) Board meetings of the National Bank of Umm Al Quwain were held:

Name of Director	H.H. Shk Rashid Al Mualla	Shk. Nasser Al Moalla	Shk.Sager Al Mualla	Mr Marwan Al Rostamani	Mr Abdulla Al Zarooni	Mr Ahmed Al Nuaimi	Dr Ali Al Kaitoob
Meeting 1 06/01/2022	YES	YES	YES	YES	YES	YES	YES
Meeting 2 05/02/2022	YES	YES	YES	YES	YES	YES	YES
Meeting 3 09/02/2022	YES	YES	NO	YES	YES	YES	YES
Meeting 4 21/04/2022	NO	YES	YES	YES	YES	YES	YES
Meeting 5 09/06/2022	NO	YES	NO	YES	YES	YES	YES
Meeting 6 23/06/2022	YES	YES	YES	YES	YES	YES	NO
Meeting 7 09/11/2022	YES	YES	YES	YES	YES	YES	YES
Meeting 8 21/11/2022	NO	YES	NO	YES	YES	YES	YES
Number of attendees by proxy	Nil	Nil	Nil	Nil	Nil	Nil	Nil

8- Board Resolutions During 2022

Some of Board resolutions during the 2022 fiscal year, along with its meeting convention dates:

Sr No	Decision	Ratification date
1	Review and approve of Draft of Audited consolidated Financial statement and independent auditor's report of NBQ and subsidiary company for the year ended 31 December 2021	09/02/2022
2	The Board of Directors of NBQ approved to increase the bank's capital from AED 1,848,000,015 to AED 2,000,000,000, through the issuance of 151,999,985 bonus shares at a rate of 8.225% of the bank's capital distributed to the bank's shareholders in proportion to the shares owned by each of them, bringing the bank's capital after issuing the bonus shares to Two billion Dirhams in line with UAE Central Bank Circular No. 12 of 2021 issued on April 25, 2021, which stipulates a minimum capital for national banks of no less than Two billion dirhams, and to place it for shareholders' approval.	21/04/2022
3	Board approved the Authority list for approving capital/revenue expenditures with effect --from 01/07/2022	09/06/2022
4	Lending against Equity shares - Review of listed shares approved to take as collateral	09/06/2022
5	Approve Finance National Housing Loans Product	09/11/2022
6	Board approved the Institutional oversight and governance Policy.	09/11/2022
7	Board approved the Human Resources & Emiratization committee charter	21/11/2022
8	Board approved to place Remuneration Policy for the Board of Directors of NBQ and Its committees, executive management, and employees for the annual general assembly approval.	21/11/2022

9. Powers delegated to the Executive Management Members

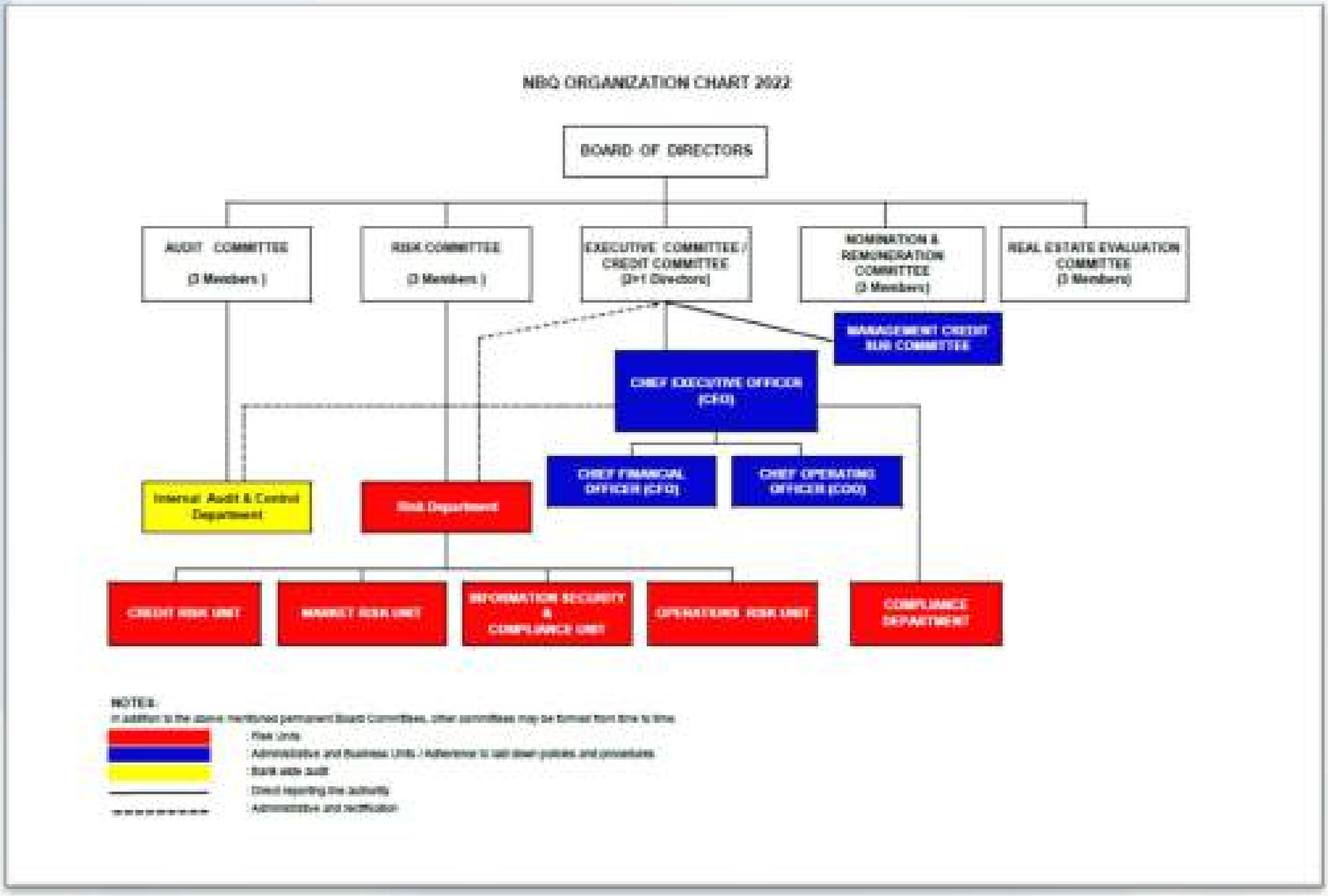
Statement of Board duties and powers exercised by Board members or the executive management members during 2022 based on an authorization from the Board, specifying the duration and validity of the authorization according to the following schedule:

Sr. No,	Name of the Authorized Person	Power of Authorization	Duration of Authorization
1	N/A	N/A	N/A

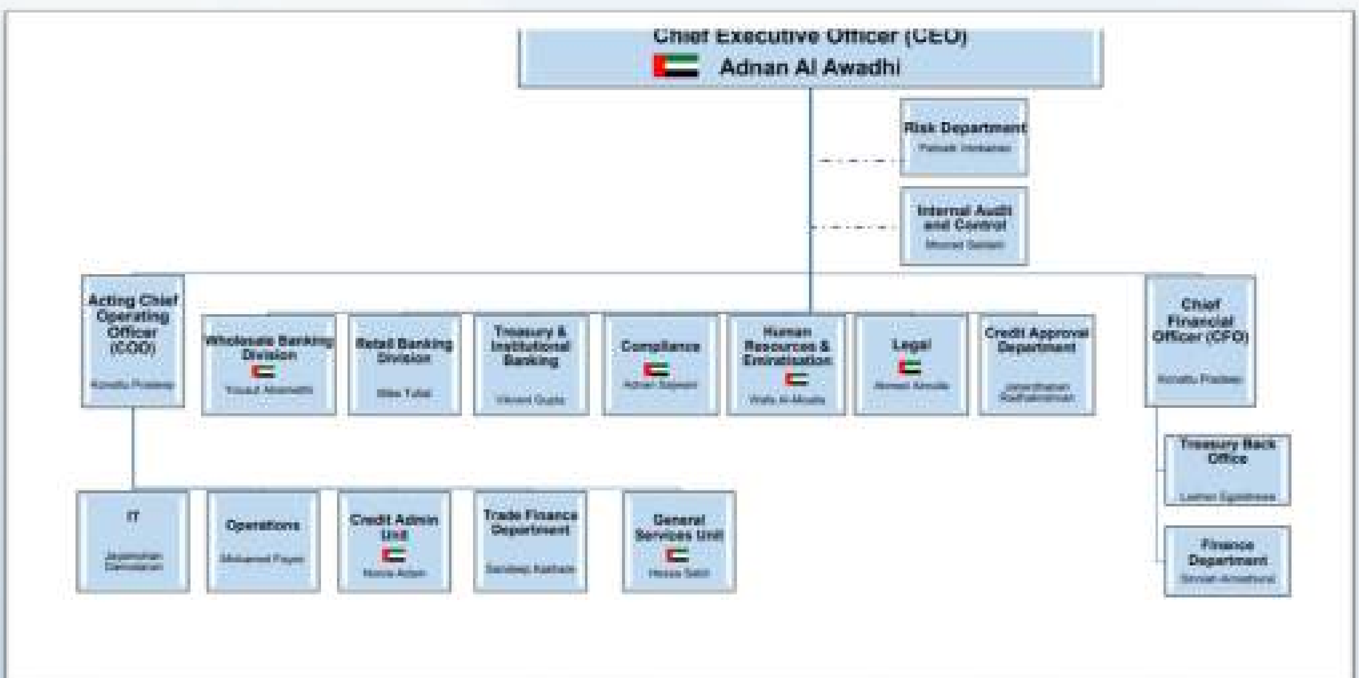
10- Statement of the Details of Transactions with Related Parties (Stakeholders) During the Year 2022.

The Bank consistently discloses the related party transactions in their financial statements which are audited by external auditors. Management reviews the movements of related party transactions and when the deals are conducted. The Bank discloses the transactions and dealings with the related parties and the disclosures are maintained as per the relevant accounting standards and are verified by the external auditors through their quarterly review and yearly audits. Related party disclosure for the year 2022 is disclosed in the financial statements under note number 27.

11- NBQ Organization Structure



12- NBQ Management Structure



13- Senior Executive Management

A detailed statement of the senior executives in the first and second grade according to the company organizational structure, their jobs and dates of their appointment with a statement of the total salaries and bonuses paid to them, according to the following table

Sr. No	1	2	3	4	5	6
Name	Adnan Al Awadhi	K.G. Pradeep	Mike Tufail	B.V.Patnaik	Mourad Ali Saidani	Adnan Sajwani
Position	Chief Executive Officer	Acting Chief Operation Officer/CFO	AGM- Head of Retail Banking Group	Head of Risk	Head of Internal Audit	Head of Compliance
Appointment date	03/01/2021	27/06/1992	29/06/2008	09/08/2006	13/01/1996	01/03/2020
Total salaries and allowances paid for the year 2022	4,644,000 (total salaries paid during the year)					
Total remuneration paid for the year 2022(Bonuses)	192,637 (fixed bonus paid)					
Any other cash rewards for the year 2022/due in the future	NA					

14- External Auditor

Overview of the company auditor to shareholders:

External Auditor

Ernst & Young (EY) was appointed as external auditors of the Bank and the Group for the year 2022. EY conducts the quarterly audit and the year-end Financial Statements. It is one of the leading auditing firms worldwide.

Statement of fees and costs for the audit or services provided by the external auditor:

Name of the audit office and partner auditor:	Ben Wareing – Ernst and Young - Dubai
Number of years he served as the Bank external auditor	2 Years
The number of years that the partner auditor spent auditing the company's accounts	2 Years
Total audit fees for 2022 in (AED)	Fees were set at AED.475,000/- + VAT.
Details and nature of the other services carried out by the bank's external auditor (if any). If there are no other services, this matter shall be stated expressly.	No other services provided by EY
Fees and costs of other private services other than auditing the financial statements for 2022 (AED), if any, and in case of absence of any other fees, this shall be expressly stated.	No other fees
Statement of other services that an external auditor other than the Bank accounts auditor provided during 2022 (if any). In the absence of services provided by another external auditor, this shall be stated explicitly	Auditor: PwC Assessment of UAE Information Assurances Services conducted.

Statement clarifying the reservations that the Bank External auditor included in the interim and annual financial statements for 2022, and In the absence of any reservations, this must be stated explicitly:

No qualified opinions were made by the Bank's external auditor in the quarterly and annual financial statements for the year 2022.

15- Board Audit Committee

A. Introduction

1. Objectives

Board Audit Committee is a Board level Committee of Directors that ensures the independence of external and internal auditors, the effectiveness of internal control systems, a controlled environment, oversees the integrity of the financial reporting process, and reviews the adequacy of compliance relating to local laws, Stock Exchange, Central Bank and other statutory regulations.

The Audit Committee assists the Board of Directors in fulfilling its responsibilities in

Respect of the following:

1. External audit of Financial Statements.
2. Financial reporting processes.
3. Internal Audit Function.
4. Internal control systems.

B. Name of Audit Committee Members, Their Competencies and Tasks

Committee Members	Membership Status on Board	Position on the Committee
Mr. Abdulla Mohamed Salih Al Zarooni	Independent	Chairman
Mr. Ali Rashed Sultan AlKaitoob	Independent	Member
Mr. Ahmed Mohamed Dhaen Al Nuaimi	Independent	Member

C. Number of meeting of meeting held during 2022

Number of meetings held by the Audit Committee and their dates to discuss matters related to financial statements and any other business:

Sr. No	Meeting No	Date
1	(01/2022)	27/01/2022
2	(02/2022)	03/03/2022
3	(03/2022)	30/06/2022
4	(04/2022)	19/07/2022
5	(05/2022)	13/10/2022

16- Nomination & Remunerations Committee

A. Introduction

Nomination and Remunerations Committee is a permanent committee comprising of Directors to address strategic human resource issues. It provides assistance and support to the Board of Directors in fulfilling the responsibilities to the shareholders in respect of the composition of the Board, independence of the Directors, avoidance of conflict of interest, determination of core executive management, assessment of skills of human resources and remuneration matters and its strategic alignments with business objectives and value creation of the Bank. The main objective of this Charter is to build a performance-driven culture in the organization.

B- Names of the Nomination and Remuneration Committee members, their competencies and tasks assigned to them:

Committee members	Membership status on Board	Position on the Committee
Mr. Marwan Abdulla Hassan Al Rostamani	Non-independent	Chairman
Shk.. Nasser Rashid AbdulAziz Al Moalla	Non-independent	Member
Mr. Ali Rashed Sultan AlKaitoob	Independent	Member

C- Number of Meetings held during 2022

Statement of the number of meetings held by the Committee and their dates, and statement of all Committee members' attendance of times:

Sr. No.	Meeting No.	Date
1	(01/2022)	24/02/2022
2	(02/2022)	20/09/2022

D- Committee to Follow up and Supervise the Dealings of Insiders:

Board is handling the insider's job. If there are any material movements of the shares, then the discussion of this happens at the Top Level. Bank has established an insider policy for compliance.

17- Board Risk Committee

A- Introduction

Objectives

Board Risk Committee is a Board level Committee of Directors, which ensures the effectiveness of risk management process and assists the Board of Directors in fulfilling its responsibilities in respect of the Risk Management Function.

B. Name of Committee Members, Their Competencies and Tasks Assigned

Names of Risk committee member, clarifying its competencies and tasks assigned.

Committee members	Membership status on Board	Position on the Committee
Mr.Ali Rashed Sultan AlKaitoob	Independent	Chairman
Mr.Abdulla Mohamed Salih Al Zarooni	Independent	Member
Mr.Ahmed Mohamed Dhaen Al Nuaimi.	Independent	Member

C. Number Number of Meeting Held in 2022

Statement of the number of meetings held by the Risk Committee, their dates and all Committee members' attendance times.

Sr. No.	Meeting No	Date
1	(01/2022)	23/03/2022
2	(02/2022)	30/03/2022
3	(03/2022)	19/05/2022
4	(04/2022)	11/08/2022
5	(05/2022)	18/08/2022
6	(06/2022)	25/10/2022

18 Real Estate Evaluation Review Committee

A- Introduction

Objectives

The Real Estate Evaluation Review Committee is a Board level Committee of Directors, which:

a) Ensures optimization on an acquisition of real estate securities belonging to distressed borrowers of the Bank.
b) Ensures that real estate portfolio is on optimum credit terms.

B- Names of the Committee Members

Names of Committee Members, clarifying its competencies and tasks assigned:

Committee Members	Membership Status on the Board	Position on the Committee
Shaikh Sager Saud Rashed Al Mualla	Independent	Chairman
Mr. Marwan Al Rostamani	Non-independent	Member
Dr. Ali Rashed Sultan AlKaitoob Al Nuaimi	Independent	Member

C- Number of Meeting Held in 2022

Statement of the number of meetings held by the Committee, their dates and Committee members' attendance.

Sr No	Meeting No	Date
1	(01/2022)	20/04/2022

19 Executive Committee

A- Names of the Committee Members

Committee Members	Membership status on the Board	Position on the Committee
Sheikh Nasser Rashid Al Moalla	Non-independent	Chairman
Shaikh Sager Saud Rashed Al Mualla	Independent	Member
Mr. Abdullah Mohammed Saleh Al-Zarouni	Independent	Member

B- The Committee Meetings attended by:

1) Chief Executive officer (Member)
2) Acting Chief operation officer/Chief Financial Officer (Member)
3) Head of Risk

20 Credit Committee

A- Names of the Committee Members

Committee members	Membership status on the Board	Position on the Committee
Sheikh Nasser Rashid Al Moalla	Non-independent	Chairman
Shaikh Sager Saud Rashed Al Mualla	Independent	Member
Mr. Abdullah Mohammed Saleh Al-Zarouni	Independent	Member

B- The Committee Meetings attended by:

1) Chief Executive officer
2) Acting Head of Corporate Banking Services.
3) Head of Risk
4) Head of Credit Approvals

21- Internal Control Framework

The internal Control Framework is a set of principles structured into five interrelated components:

- Control Environment: Governance sets the organization’s tone, underlining the significance of, and establishing oversight responsibilities for Enterprise Risk Management. Culture relates to ethical values, desired behaviors, and understanding of risk in the organization.
- Risk Assessment: A risk appetite is established and aligned with strategy while serving as a basis for identifying, assessing, and responding to risk.
- Control Activities: Risks that may impact the accomplishment of strategy and business objectives need to be identified and evaluated. Risks are ranked by severity in the context of risk appetite. The organization then selects risk responses and takes a portfolio view of the amount of risk it has assumed. The results of this process are reported to key risk stakeholders.
- Information and Communication: Enterprise risk management requires a continual process of obtaining and sharing necessary information, from both internal and external sources, which flows up, down, and across the organization.
- Monitoring: By assessing entity performance, an organization can consider how well the enterprise risk management components are functioning over time and considering significant changes, and what revisions are needed.

The term "Internal Controls" refers to the overall operating framework of practices, systems, organizational structures, management philosophy, code of conduct, policies and procedures and actions which exist in the BANK and designed to:

- Ensure that essential business objectives are met including the effectiveness and efficiency of operations and the safeguarding of assets against loss.
- Ensure the reliability of financial reporting and compliance with general accounting principles.
- Ensure compliance with applicable laws and regulations.
- Ensure systematic and orderly recording of transactions.
- Provide reasonable assurance that undesired events will be prevented or detected and corrected.

The primary objective of internal control system in NBQ is to help the bank perform better using its resources. Through internal control system, the bank identifies its weaknesses and takes appropriate measures to overcome the same. The main objectives of internal control are as follows:

- Efficiency and effectiveness of activities (performance objectives).
- Reliability, completeness and timelines of financial and management information (information objectives)
- Compliance with applicable laws and regulations (compliance objectives)

NBQ internal Control frame work mandates all business units of NBQ to support and maintain a system of internal control that is optimized to provide stockholders, the Board of Directors, and management with an assurance, based on a weighing of costs and benefits, that:

- Transactions are executed in accordance with Management's general or specific authorization.
- Transactions are recorded as necessary,
- To permit preparation of financial statements in conformity with generally accepted accounting principles.
- To maintain accountability and responsibility for assets and bank resources.
- Transactions are consummated at reasonable cost, beneficial and necessary for the business of the Bank.
- Access to assets and resources is permitted only in accordance with management's general or specific authorization.
- Recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.
- Financial information is released outside access bank only upon proper corporate authorization and after consideration of the interests of the bank.
- Complete and accurate records and accounts are maintained to reflect transactions and the disposition of assets.
- Business Objectives will be met.
- Compliance with Applicable Laws and Regulations of Other Regulatory Agencies

The Internal Audit & Control Department (IACD) is responsible for monitoring compliance with the Internal Control Framework Standards.
IACD is the fourth line of defense after the Front Office, Risk Management and Operational Risk Management/Compliance functions.

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and corporate governance.

The IACD assesses and makes appropriate recommendations to improve the Bank's governing process for making strategic and operational decisions. It oversees risk management and control, promoting appropriate ethics and values, ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas of the Bank. It also coordinates the activities of and communicating information among, the Board, external and internal auditors, other assurance providers and management

In addition to the above, the IACD assesses the design, implementation, and effectiveness of the Bank's ethics-related objectives, and if there is proper documentation. It adopted the following steps while performing all types of audits /checks: risk identification, risk assessment, risk prioritization, response planning and risk monitoring. Two factors were used to assess the risk exposure: loss frequency or probability and loss severity.

22- Internal Control System

- Ensure that Bank has a comprehensive policy on internal control and is well communicated (all Bank policies are approved by Board).
- Ensure that all highlighted critical observations to the business are escalated to management and Board Audit Committee to set a further course of action.

A- <u>Board Audit Committee responsibilities are as follows:</u>

a) Review interim and annual audited financial with management, external auditor and the Head of Internal Audit before presenting them to Board. It focuses on any changes in accounting policies and practices and their impact on the financial statements, major accounting entries based on the exercise of judgment by management including provision requirements, management overview of financial results for the quarter/year and executive session with senior financial management, significant and unusual and complex transactions and accounting estimates adopted in preparing financial statements, current developments in auditing, accounting, reporting and disclosure requirements.
b) Review the annual financial plan and budget – and monitor its performance quarterly against the actual performance.
c) Discuss the financial information and earnings guidance provided to the external analysts and rating agencies.
d) Approve the appropriate systems for internal control, including internal controls over financial reporting and for the detection and prevention of frauds and errors.
e) Consider the effectiveness of the Bank's internal control system, including information system/ technology security and control.
f) Understand the scope of internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations together with management's responses.
g) Understand the scope of internal auditor's review of internal control over all other processes, and obtain reports on significant findings and recommendations, together with management's responses.
h) Review investigation and special assignment reports relating to any misconduct, conflict of interest and fraud and actions initiated to mitigate recurrences.
i) Ensure remedial actions are in place and implemented as per deadlines set for the same.

B- <u>NAME OF THE DEPARTMENT DIRECTOR, HIS QUALIFICATIONS AND DATE OF APPOINTMENT:</u>

- Mr. Mourad Ben Ali Saidani.
- Qualifications: Master's degree in psychology and 2 parts of CIA.
- Date of Appointment: 13 January 1996

C- <u>NAME OF THE COMPLIANCE OFFICER, HIS QUALIFICATIONS AND DATE OF APPOINTMENT:</u>

- Mr. Adnan Sajwani.
- Qualification: Bachelors, Business Administration.
- Date of Appointment: 2 November 2019.

D- HOW THE INTERNAL CONTROL DEPARTMENT DEALT WITH ANY MAJOR PROBLEMS AT THE COMPANY OR THOSE THAT WERE DISCLOSED IN THE ANNUAL REPORTS AND ACCOUNTS

The Internal Audit Control Department (IACD) is the fourth line of defense after Front Offices, Risk Management and Operational Management/Compliance functions. Internal Auditing and Internal Control is an independent, objective assurance and consulting activity designed to add value and improve the Bank's operations. It helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and corporate governance.

Its objective is to help management with an analysis, recommendations and relevant comments concerning any phase of the business activity that will be of service in running the business more efficiently. IACD is considered as valuable resource to Executive Management & Board of Directors in accomplishing overall goals and objectives as strengthening internal control and organizational governance.

The IACD conducts a review and assesses the effectiveness of management of risk and internal controls in all areas covered by the audits by:

- Evaluating emerging technologies
- Analyzing opportunities
- Examining global issues
- Assessing risks, controls, ethics quality and efficiency.
- Assuring that controls in place are adequate to mitigate unforeseen risks & evaluating the Bank's internal controls, evaluating process performance identifying deviations from management KPI's, recommendations for process and control improvements to achieve organizational goal.
- Assessing business requirements and objectives.
- Evaluating evidence in connection with any business issues.
- Review revenue Management and recognition
- Review of procurement of goods and services inventory management and supplier engagement logistics
- Provide Management and BOD assurance that:
  a) Financial & operational information are reliable, accurate and timely.
  b) Compliance with applicable laws, regulations, internal policies and procedures.
  c) Operations and programs are effective and efficient, and assets are safeguarded
  d) Risks are identified, appropriate risk responses selected, communicated and managed
  e) Action plans for rectification of identified issues are in place.

IACD adopted the following steps while performing all types of audits and checks:

a) Risk identification,
b) Risk assessment,
c) Risk prioritization,
d) Response planning and risk monitoring.

Two factors are used to assess the exposure to risk:

(i) Loss frequency or probability and
(ii) Loss severity.

The IACD is a continuous operation covering also the five components of the internal controls system:

(i) Control environment
(ii) Risk assessment
(iii) Control activities
(iv) Information and communication
(v) Monitoring

The IACD's scope does not end with the delivery of the findings report. Any critical observations are escalated to Management and Board Audit Committee to set further course of action. The aim of the Management team is for continuous improvement - with the internal audit function being the basis against which this objective can be measured.

23- Number of Reports Issued By the Internal Control Department to the Bank’s Board of Directors

During 2022, Internal Audit department submitted 25 Reports to Audit committee during the year 2022.

24- Violation of Regulatory Requirements in 2022

The bank was not exposed to any financial violations from the regulatory authorities during 2022.

25- Contribution Made in 2022

Statement of the cash and in-kind contributions made by the Bank in developing the local community and preserving the environment.

NBQ has accepted Environmental, Social and Governance (ESG) initiatives are one of the key strategic objectives during the year and for the future. The Bank has adopted ESG policies in line with the requirements as visualized by the UAE Vision and the global practices. NBQ has a corporate social responsibility strategy that focuses on several aspects such as empowering women, supporting people with special abilities, and promoting Emiratization.

Bank has published the ESG report which provides details of other environmental, social and governance initiatives of the bank during the year 2022 which may be referred to the details.

Major Highlights during the year 2022 are as follows:-

- Bank has implemented systems to recycle to water the plans from the consumed water.
- Our papers consumed as stationery are of recyclable quality as confirmed by our suppliers.
- Paper consumption is reduced by 19.78% from year 2019 through prudent communication management.
- Waste management has been implemented in Head Office and Dubai branches using differentiated Bins through professional companies.
- Diesel consumption was reduced to Zero.
- Papers were recycled which tantamount to saving 123 trees, 50 K gallons of water and 29,040 KWs of energy.
- LED lamps were implemented in our Flagship branch and Head Office and replacement of Air Conditioners Chiller contributed to considering savings in Electricity consumption.
- Saved 6.78% carbon footprint consumption compared to the previous year and petrol consumption reduced due to use of less number of vehicles from year 2019.
- Implemented safety of our premises through our protection and security mechanisms.
- Implemented ramps, wheel chairs, reserved parking for special needs at our branches and offices
- Vendor management and vendors onboarding has improved their controls through compliance screening, monitoring their activities, local involvement in the ownership and management, sustainability initiatives.
- Bank has contributed for social and environmental initiatives during the year which includes the community domain as well.

The Bank has a corporate social responsibility strategy that focuses on several aspects such as empowering women, supporting people with special abilities, and promoting Emiratization. It is also keen on initiatives in the community.

NBQ has supported many activities including but not limited to sports activities, traditional camel racing, sponsored Book, Sponsored official National day celebrations...etc

Contribution During 2022 Related to Emiratization:

Our Emiratization percentage has increased from 43.3% in 2021 to 45.80% in 2022.

We have explained our community participation in detail in our Sustainability Report 2022 which is published separately.

26 - General Information

a. **Statement of the Bank share Price in the Market (Closing Price, Highest Price, and Lowest Price) at the end of each Month During the Fiscal Year 2022.**

Month	Highest	Lowest	Closing
January	1.89	1.70	1.71
February	1.85	1.61	1.85
March	2.00	1.64	1.64
April	2.00	1.80	2.00
May	2.00	2.00	2.00
June	2.00	2.00	2.00
July	2.10	1.90	1.90
August	1.82	1.82	1.82
September	1.88	1.65	1.88
October	1.88	1.60	1.83
November	1.80	1.80	1.80
December	1.80	1.70	1.79

b. **Statement of the Company comparative performance with the general market index and sector index to which the Company belongs during 2022.**

NBQ's share price registered a fall of 3.24% during the year. The ADX General Index registered growth of 20.29% y-o-y while at the same time ADX financial index (Sector Index) rose by 47.04% y-o-y.

c. **Statement of the shareholders' ownership distribution as of 31/12/2022 (individuals, companies, governments) classified as follows: local, Gulf, Arab and foreign:**

Sr. No	Shareholders classification	Percentage of owned shares			
		Individuals	Companies	Government	Total
1	Local	38.4%	30.520%	30%	98.920%
2	Arab	1.073%	0.0050%	Nil	1.078%
3	Foreign	0.001146%	Nil	Nil	0.001146%
	Total				**100%**

d. **Statement of shareholders owning 5% or more of the Company's capital as of 31/12/2022 according to the following schedule:**

Sr. No.	Name	Number of owned shares	Percentage of owned shares of the Company's capital
1	Umm al-Quwain government	600,000,037	30%
2	Mr Salem Abdullah Salem Al Hosani	253,909,275	12.695%
3	M/s Abdul Wahed Al Rostamani Group LLC	202,241,465	10.112%
4	M/s. Barah Investment LLC	199,960,010	9.998%

27- Distribution of Shareholdings

Statement of how shareholders are distributed according to the volume as on 31/12/2022:

Sr. No.	Share (s) Ownership	Number of Shareholders	Number of Owned Shares	Percentage of Owned Shares of the Capital
1	Less than 50,000	114	1,067,987	0.0534%
2	From 50,000 to less than 500,000	47	9,168,035	0.4584%
3	From 500,000 to less than 5,000,000	65	117,477,069	5.8739%
4	More than 5,000,000	34	1,872,286,909	93.6143%

28- Investor Relationship Officer and Communication

Statement of measures taken regarding the controls of investor relationships and an indication of the following:-

Name of the investor relationships officer and Data of communication with the investor relationships (e-mail- phone-mobile- fax):

Name	Alaa Khairy	Dalia Saeed
Direct No	06-7066748	06-7066858
Email	Investor.relations@nbq.ae	Investor.relations@nbq.ae

29- Special Resolutions Passed in the General Assembly

Statement of the special decisions presented in the General assembly held during 2022 and the procedures taken in their regard:

1) **In AGM dated 14 March 2022:** It was approved to amend the articles of the bank's articles of Association to comply with Federal Decree Law No. (32) of 2021 regarding commercial companies and Corporate governance for Banks issued by Central Bank of UAE and related circulars and decisions, the following are the Amendments made to Articles of Association of National Bank of Umm Al Qaiwain PSC: (Articles NO: 1 , 15 ,19 , 20 , 23 , 26 , 28 , 32 , 33 , 34 , 37 , 40 , 41 , 42 , 43 , 44 , 46 , 47 , 48 , 50 , 51 , 54 , 58).

2) **In General assembly meeting dated 20/06/2022:**
   a) Approving the Board of Directors proposal to increase the bank's capital from AED 1,848,000,015 to AED 2,000,000,000, through the issuance of 151,999,985 bonus shares at a rate of 8.225% of the bank's capital distributed to the bank's shareholders in proportion to the shares owned by each of them, bringing the bank's capital after issuing the bonus shares to Two billion Dirhams in line with UAE Central Bank Circular No. 12 of 2021 issued on April 25, 2021, which stipulates a minimum capital for national banks of no less than Two billion dirhams.
   b) Approving the Board of Directors proposal of amendment of Article (6) of the Bank's Articles of Association relating to the "Bank's Capital" in order to increase the capital from AED 1,848,000,015 to AED 2,000,000,000 (Two billion dirhams) through the issuance of 151,999,985 bonus shares at a rate of 8.225% of the bank's capital distributed to the bank's shareholders in proportion to the shares owned by each of them.

30- Rapporteur of the Board Meeting

Name of the rapporteur of the Board meetings: Dalia Saeed.
Date of appointment as rapporteur of the Board meetings: 30 October 2018 (Date of Appointment in NBQ: 01/07/1997).

31- Major Events and Important Disclosures During 2022

-Major events: Nil for 2022.

-A detailed statement of important disclosures that the Bank encountered during 2022:

Increase the bank's capital from AED 1,848,000,015 to AED 2,000,000,000.

32 Related Parties Transactions

A statement of the deals that the company has carried out with related parties during the year 2022, which are equal to 5% or more of the company's capital:

Related party transactions are reported in the Financial Statements for the year as per the normal disclosure requirements of the Bank.

33- Emiratization

Statement of Emiratization percentage in the Bank at the end of 2020, 2021, 2022:

Emiratization percentage is reported on a yearly basis

	2020	2021	2022
Emiratization %	**42%**	**43.3%**	**45.8%**

34- Innovative Projects and Initiatives

<u>Statement of innovative projects and initiatives carried out by the Bank or being developed during 2022:</u>

In line with the bank's overall strategy, we continued to update technology platforms to ensure the latest features, high availability, performance, and compliance. We went live with Apple Pay to enable easy and secure payments to all NBQ customers. Various enhancements to the digital channel offerings also went live in this period ranging from mobile banking and IVR. We also invested significantly in the bank's Application Program Interface (API) infrastructure to enable seamless and secure integration internally as well as with external partners. This included implementing an industry-leading API solution for internal and external API management. We also upgraded our SWIFT infrastructure to comply with the latest MX standards. Further, implementing the state-of-the-art and industry-leading hyper-converged solution gives extreme flexibility, scalability, high availability, and performance which takes us one step closer to an internal cloud-ready infrastructure. Also, we invested in upgrading data security solutions and enabled more protection against ransomware attacks. On the compliance front, we completed the recertification of PCI DSS, made significant progress in UAE IA (NESA) standards, and complied with latest SWIFT Customer Security Controls Framework (CSCF).

End of Report

Enabling a sustainable future

بنك أم القيوين

NBQ

Environment, Social & Governance Report 2022

Table of Contents

ABOUT THIS REPORT

About this Report

We are delighted to welcome you to NBQ's Environmental, Social, and Governance (ESG) sustainability report for 2022. This year has been a significant milestone in the National Bank of Umm Al Qaiwain's P.S.C (NBQ) sustainability journey, as it has established its ESG Committee, as well as its Sustainability Strategy. As a result, the bank was able to set out long-term, medium-term, and short-term sustainability targets to create shared value for its stakeholders.
NBQ is excited to share these new achievements with its stakeholders, and is confident that its efforts will translate into a better future for its people and the planet.

Scope

This report details the activities of the National Bank of Umm Al Qaiwain (NBQ) and excludes data from its subsidiary Twin Towns Marketing Management L.L.C. except for financial metrics. Unless otherwise specified, the report covers, to the maximum extent possible, all significant corporate actions from 1 January 2022 to 31 December 2022, taking into account data constraints and the specified limits where applicable.

Terminology

Terms such as “National Bank of Umm Al Qaiwain”, “NBQ”, “the Bank”, "we", "it", “our business”, “our organisation”, “our company” refer to the National Bank of Umm Al Qaiwain (PSC). Unless otherwise noted, all monetary amounts reported in this report are in United Arab Emirates Dirhams (AED).

Assurance

The non-financial data in this report are created and amended by the relevant internal stakeholders and validated via an assurance procedure that provides the Bank's stakeholders with the essential level of confidence in the data's accuracy. The Financial Statements are audited by an independent third party (please refer to the Financial Report 2022 for more information on this).

Contact

If you have any questions or feedback on this report or NBQ's sustainability activities, please contact NBQ at
nbq.sustainability@nbq.ae
For specific inquiries, please get in touch with the key contacts below:

- Ms. Dalia Saeed
  dalia.saeed@nbq.ae
  +971 6 7066858
- Mr. Alaa Khairy
  alaa.khairy@nbq.ae
  +971 06 7066748

Compliance

This report conforms to the Global Reporting Initiative (GRI) Standards and the Abu Dhabi Stock Exchange ESG Reporting Guidelines. Please refer to the Content Index for further details.

Highlights from 2022

This year, NBQ established its ESG Framework and set out its sustainability goals.

6%

decrease in cost to income ratio

38%

Net Profit Increase

ESG Risk Management integrated in its procurement practices

45%

of its workforce consists of female employees

76%

of increasing in total employee training hours since 2020

195

hours of volunteering for the community

Outstanding environmental performance

CEO's message

I am pleased to present the National Bank of Umm Al Qaiwain (NBQ) Annual Environmental, Social and Governance Report for 2022 (ESG Report), which highlights our performance and key achievements in environmental, social, governance and economic practices. As a major financial institution in Umm Al Qaiwain (UAQ) in the United Arab Emirates, NBQ plays a key role in the economic transformation of UAQ and other Emirates, providing products and services to individuals, SMEs and corporates. Our goal is to continue enhancing our competitive position and maximise the positive contribution, we make to stakeholders and communities.

As an organisation, we are inspired by the vision and leadership of the United Arab Emirates in its commitment to an inclusive, net-zero economy by 2050. The UAE is backing this ambition with significant investments in clean and renewable energy and by focusing on tourism as part of their non-oil economy objectives. As we enter our next phase of growth, we see sustainability as an opportunity to support the national economic agenda and meet the evolving needs of our customers, while effectively managing risk to ensure the long-term success of the bank.

At NBQ, we strive to enrich the lives of our customers, communities, and colleagues. Therefore, our success is not only measured by our financial performance, but also by the extent to which we do what is right, both in the short and long term.

We are committed to aligning our business goals with a sustainability mindset, in line with global standards and the UAE's Vision 2050. We are also committed to publishing our sustainability agenda in the future to align with the United Nations' Sustainable Development Goals (SDGs) and the sustainability efforts of the United Arab Emirates. While our initiatives may take time to mature and produce tangible results, the purpose of this report is to highlight the initiatives that demonstrate our intent to create positive change and our commitment to adopting sustainable banking practices as prescribed by global standards, the UAE and other regulatory bodies.

To support our ESG initiatives, we have created a sustainability work team to measure performance periodically and prepare disclosures that meet industry sustainability standards.

We are confident about the future and intend to take bold steps to grow stronger in our journey towards sustainability.

We will address the challenges of balancing business opportunities with ESG requirements to meet global standards while maximising our valuable contribution to the social, economic and cultural development of the UAE and effectively managing risk and opportunities.

Adnan Al Awadhi

Chief Executive Officer

CFO's message

United Arab Emirates remains an attractive destination, ably supported by a stable economy, visionary leadership, innovative strategies, and its capacity for a strong sustainable growth plan. Following the global trends, guided by the set of prestigious international bodies, UAE has begun to focus on creating a sustainable setup, in response to the challenges faced worldwide.

Aiming to have a positive Environmental, Social, and Governance (ESG) impact, the National Bank of Umm Al Qaiwain is set to align its metrics framework, plan of action and foreseeable roadmap, keeping sustainability in mind. As a result, NBQ has tried to integrate all the efforts across the bank towards sustainability-oriented actions, upholding the belief that profitability and value creation for the shareholders must be generated with the right balance of social and environmental responsibility.

NBQ has brought together the collective participation of the stakeholders in the process toward a positive impact on every sphere.

To have a sustainable impact, NBQ being aware that the future is digital, has planned its initiatives based on a solid foundation of regulatory compliance, ethical conduct, a robust risk management system, and other essential industry practices.

Sustainability is envisioned to be an integral part of NBQ's agenda, particularly in key areas such as Strategic Planning, Asset Liability Management, Risk Management and other internal management processes. The Bank has conducted a materiality survey with the participation of our stakeholders, which provided strong results supporting the direction on the sustainability front.

This year's report offers a snapshot of NBQ's actionable measures and planned initiatives to facilitate a commitment to inclusive and sustainable growth, as dictated in the bank's vision and mission. The efforts have been upheld, supported and enhanced by the Board of Directors, the Chief Executive Officer, and the management teams from different functional domains.

K.G.Pradeep

Chief Financial Officer and Acting Chief Operating Officer

About NBQ

The National Bank of Umm Al Qaiwain (the "Bank" or "NBQ") is a public shareholding company founded on 5 January 1982 by Amiri Decree Number (1) issued by His Highness, the Ruler of Umm Al Qaiwain, and which commenced operations on 1 August 1982. The Bank offers retail, corporate, and Islamic banking services via its eleven branches in the UAE.

The Group maintains a general reserve to which the Board of Directors may contribute at its discretion. This reserve may be utilised for any purpose designated by an Annual General Meeting decision of the Group's shareholders.

Sound corporate governance and consistently high capital adequacy and liquidity ratios demonstrate the Bank's financial robustness.

Retail Banking

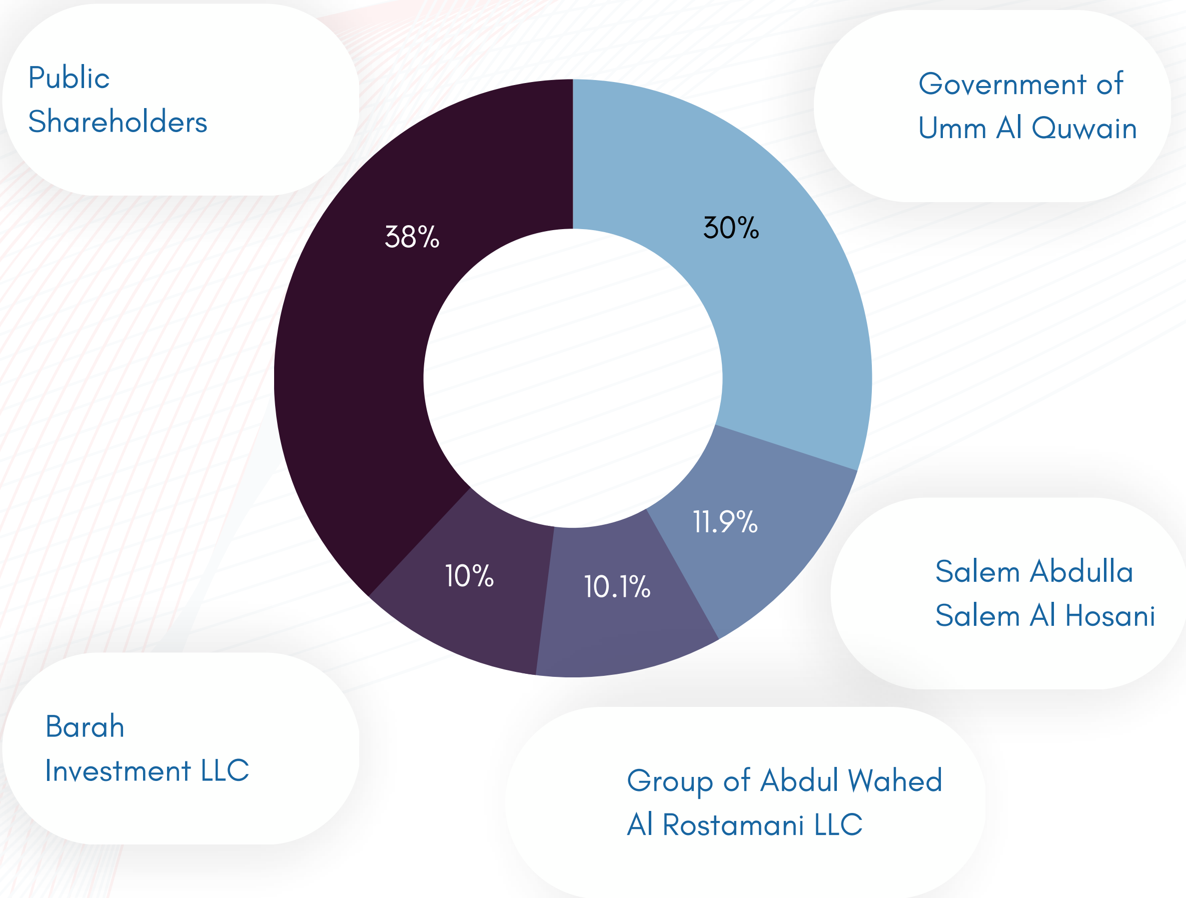
Islamic Banking

Corporate Banking

Network of 11 branches across the UAE

Ownership Structure

The government of Umm Al Qaiwain is the Bank's primary partner and supporter.
The Group is composed of the National Bank of Umm Al-Qaiwain (PSC) and Twin Towns Marketing Management L.L.C.



Awards, Participation, and Recognition

2006
Emiratisation CEO – Banking Sector

2006 & 2007
Appreciation certificate from Zayed University

2008
Appreciation for NBQ's support of the EIBFS 2008
Appreciation for NBQ's support of the EIBFS for 25 years of progress

2010
Participation from the UAQ medical district for sponsoring the celebration of International Nursing Day

2012
The highest percentage of localisation in the banking sector

2013
Award
"The best call centre of the year"

2021 and 2022
Sponsoring Al Arabi Sports & Cultural Club

2022
Sponsoring UAQ camel racing which was organized by H.H. Sheikh Rahsid Bin Saud Al Mualla organizing events office

2022
Appreciation certificate from the Department of Tourism and Archaeology in Umm Al Quwain for sponsoring the 51st National Day Celebration

2022
Sponsoring a book on H.H sheikh Saud bin Rashid Al Mualla on the occasion of 13 years of achievements

2022
Appreciation letter from the Ministry of Presidential Affairs for NBQ's participation in dropping the citizen's bad debt remediation fund

Vision, Mission & Values

Vision

To be a bank of first choice, offering innovative financial services, built on trust and integrity and driven by a passion for excellence.

Mission

To maximise value and growth for all its stakeholders by delivering premium banking services and attracting and retaining its target customer groups.

The Bank bases its core values on its people, customers, and performance.

Performance

- Recognise and reward outstanding performance
- Ensure continuous productivity
- Focused on efficiency
- Delegate authority, responsibility and empowerment
- Committed to learning and development

Customer Orientation

- Service excellence
- Customer confidentiality
- Meet and exceed customer expectations

People Orientation

- Personal integrity
- Open communications
- Value and recognise teamwork

SUSTAINABILITY STRATEGY

Sustainability Governance at NBQ
Alignment with National and Global Sustainability Frameworks
Stakeholder Engagement
Materiality Matrix
NBQ Sustainability Framework

Sustainability Strategy

Sustainability Governance at NBQ

In line with its visionary corporate culture and care for stakeholders' expectations, this year, NBQ established its ESG Committee, as well as defined its new Sustainability Strategy and Framework. This entailed a thorough stakeholder engagement process, a materiality assessment and expert consultation. The Bank's ESG Strategy is carefully thought out in a way that naturally aligns with its governance model and its business strategy.

Accordingly, its ESG Strategy entails four pillars that encompass issues that are material to its business and its stakeholders.

- BUSINESS EXCELLENCE AND CUSTOMER EXPERIENCE
- GOVERNANCE, TRANSPARENCY AND RISK MANAGEMENT
- RESPONSIBLE BANKING
- EMPLOYEE DEVELOPMENT AND DIVERSITY

Alignment with National and Global Sustainability Frameworks

UAE Vision **2021**

- Competitive Knowledge Economy
- Cohesive Society and Preserved Identity
- First-rate Education System
- Sustainable Environment and Infrastructure

UAE Agenda for Sustainable Development **2030**

- UAE Foreign Aid Initiative
- UAE Sustainable Wildlife
- Rehabilitation of Coastal and Marine Habitat Initiative
- Integrated Waste Management Initiative

UAE Circular Economy Policy **2021-2031**

- Achieve sustainable management of the economy
- Promote circular economy
- Encourage the private sector to shift to cleaner industrial production

UAQ Blue Economy Strategy **2031**

- Environment and Urban Planning
- Economic Incentives and Business Environment Improvement
- Foreign Investment and Private Sector Attraction

UAE Net Zero Strategy **2050**

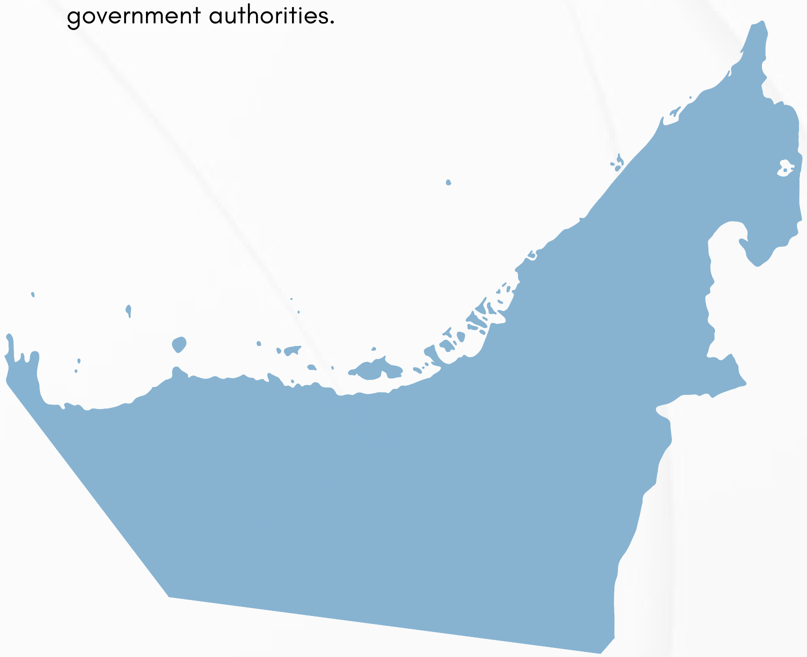
- Make the UAE the first Middle East and North Africa nation to achieve net-zero emissions by 2050.

UAE Centennial **2071**

- Fortifying the country's reputation
- Diversifying the imports and the exports by relying less on oil
- Investing in education focusing on advanced technology
- Building Emirati values and ethics for the future generations
- Raising productivity of the national economy
- Enhancing society's cohesion

National Agenda

NBQ proudly follow the steps of the national leadership in working toward a better future for the UAE and the region. It aligned its ESG strategy with the guiding principles of the below nation-level initiatives established by government authorities.



Global Agenda

As a responsible bank, NBQ understands the relevance and critical importance of tackling global sustainability challenges. Its global-level ESG strategy is guided by the United Nations' Sustainable Development Goals (UN SDGs).

Upon careful evaluation, the Bank identified the UN SDGs to which it directly contributes. This evaluation allows it to focus on the prioritised SDGs in the short-, mid- and long-term.

SDG 1 - NO POVERTY

Ensure equal rights to access economic resources

As a bank, NBQ has a key role in advancing the economy and fighting poverty by providing financial inclusion.

SDG 4- QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

NBQ has a track record of collaborating with local educational institutions to attract young talent into the financial sector. NBQ actively works to elevate the quality of financial education in Umm Al Qaiwain.

SDG 5 - GENDER EQUALITY

Achieve gender equality and empower all women and girls

The Bank is proud of its workforce with 45% female employment. NBQ has zero tolerance for discrimination on the basis of gender. provides leadership opportunities to performing female staff through continuous training and empowerment.

SDG 8- DECENT WORK AND ECONOMIC GROWTH

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

NBQ directly contributes to the availability of decent work opportunities in Umm Al Qaiwain, and promotes economic growth.

SDG 10 - REDUCED INEQUALITIES

Promote socio-economic inclusion, ensure equal opportunities and end discrimination

NBQ has an impact on reducing inequalities by providing equal opportunities to its employees, as well as its clients from diverse backgrounds.

SDG 12 - RESPONSIBLE PRODUCTION AND CONSUMPTION

Ensure sustainable consumption and production patterns

NBQ has an important role in promoting responsible production and consumption via providing loans and credits to companies in the manufacturing field. The Bank will be integrating environmental and social responsibility criteria in its Risk Management Framework to promote more sustainable practices in its community.

SDG 13 - CLIMATE ACTION

Resilience and adaptive capacity to climate hazards and natural disasters

The Bank recognises that it holds significant responsibility in promoting climate action. It will be integrating climate-related performance in its credit risk analysis and in all other ESG practices to promote the transition to a low-carbon economy.

SDG 17 - PARTNERSHIP FOR THE GOALS

Encourage and promote effective partnerships, building on the experience and resourcing strategies

As a bank, NBQ's business is built on long-lasting relationships. This is why it chooses to communicate sustainability and ESG issues with its stakeholders to promote sustainable development.

Stakeholder Engagement

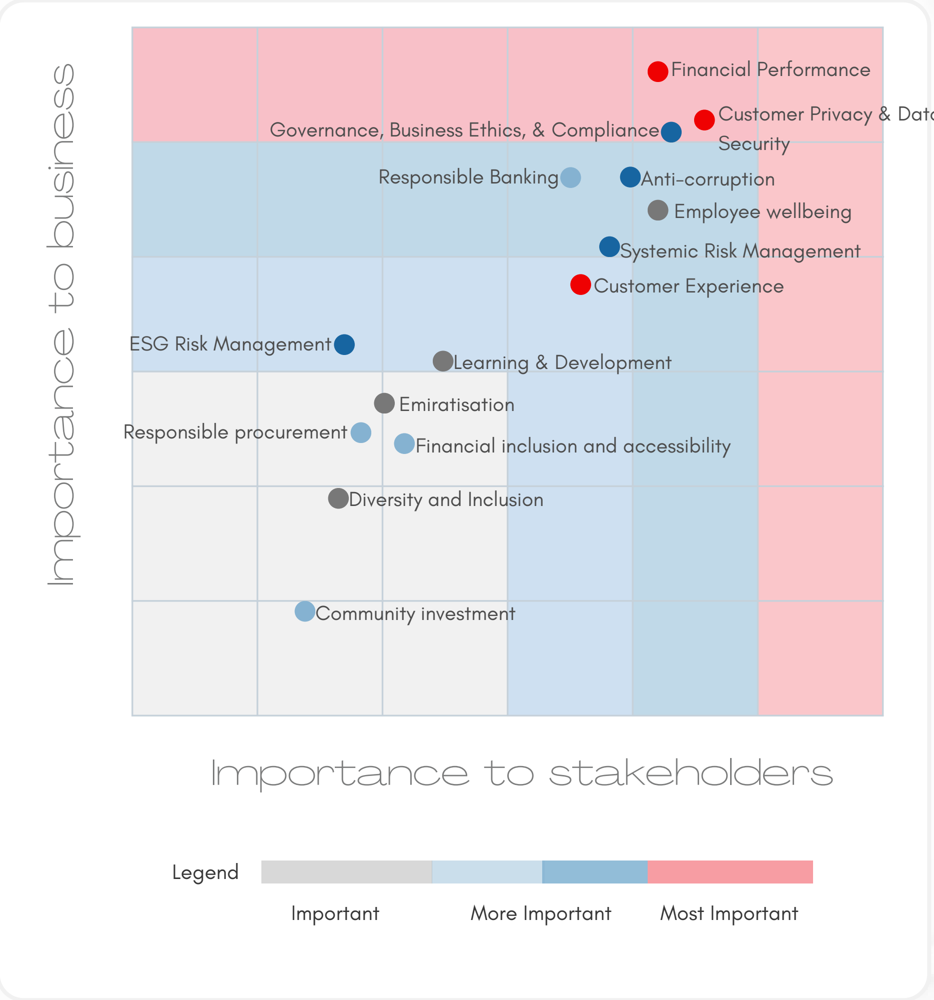
In 2022, NBQ conducted its inaugural stakeholder engagement workshops and surveys to understand the needs, expectations and ambitions of the various groups it interacts with. These include its investors, shareholders, employees, clients, government authorities, contractors, local communities, non-governmental organisations, business partners and suppliers. The Bank interacts with these groups via continued engagement with meetings, communication circulars, surveys, the provision of services and community initiatives.

Stakeholders

- Investors
- Shareholders
- Employees
- Clients
- Contractors
- Government authorities
- Local communities
- Non-governmental organisations
- Business partners
- Suppliers

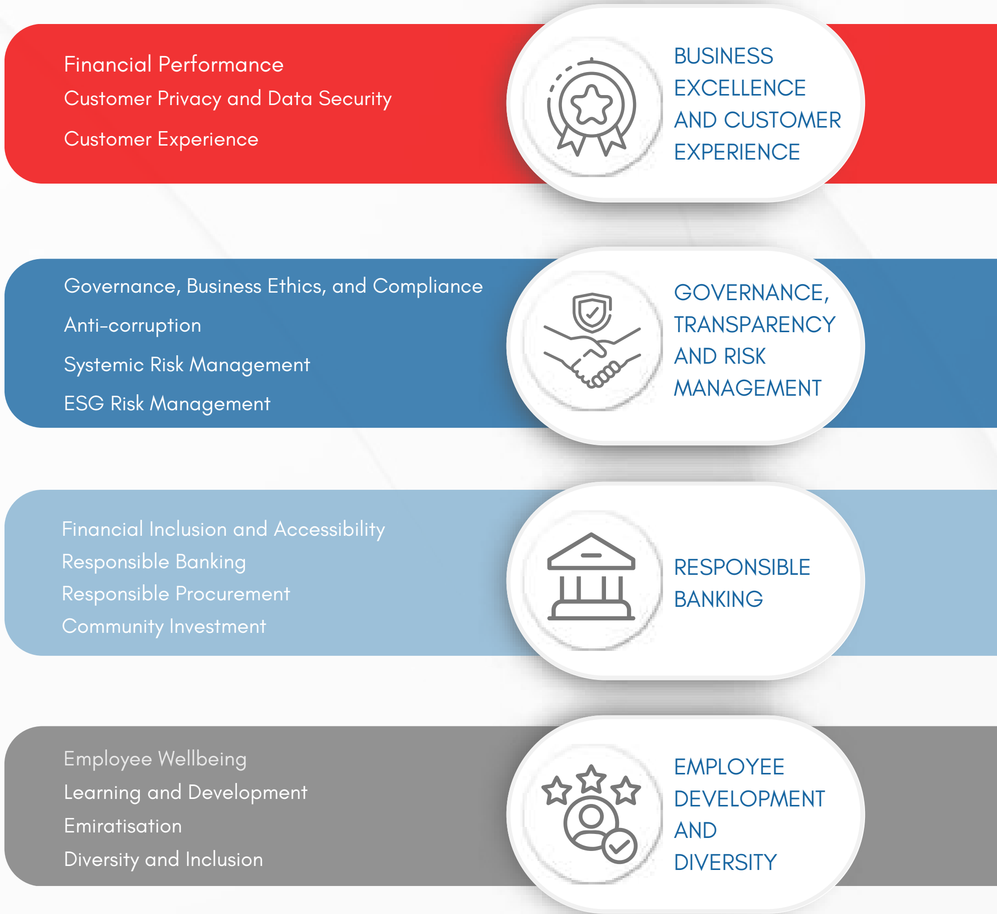
Materiality Matrix

NBQ conducted a thorough materiality assessment to identify and prioritise the important environmental, social, and governance-related issues for its business and its stakeholders.



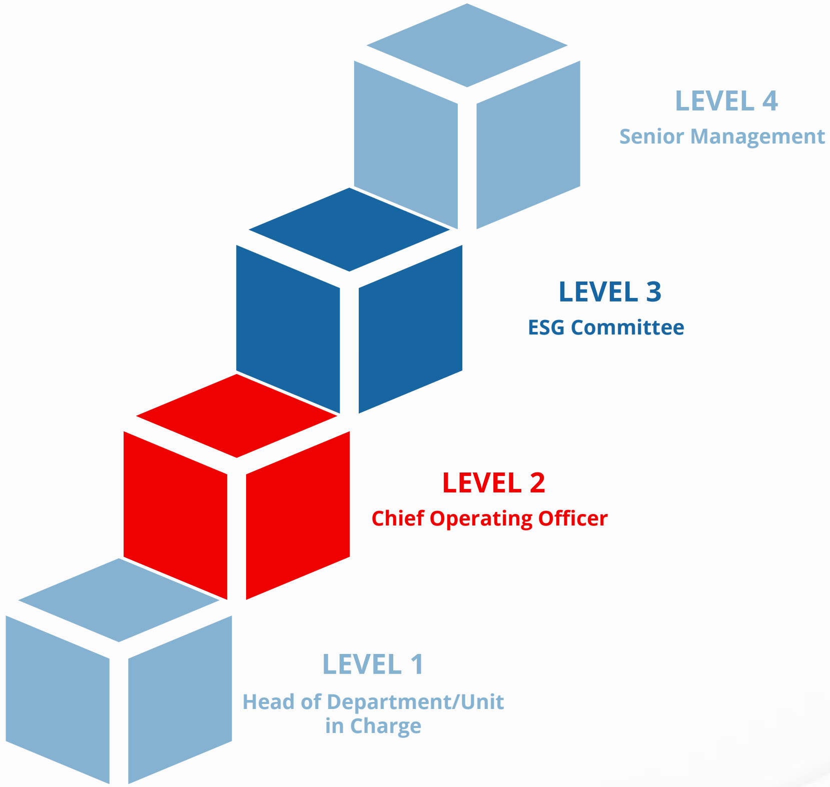
NBQ Sustainability Framework

Its Sustainability Framework sits naturally as a conclusion of its alignment with national and global ESG standards, as well as the results of its stakeholder engagement and materiality matrix exercises. The bank bases the fundament of its sustainability framework on the four ESG pillars in a manner that addresses all the material topics.



Escalation and Response to ESG

NBQ delegated each sustainability pillar and the material topics identified under them to its internal departments. In this way, the ESG Committee is accountable for tracking the progress of the Bank's environmental, social and governance-related projects, while its internal departments are responsible for executing them. Each Head of Department or Unit in Charge is responsible and/or accountable for the initiatives and deliverables that are drawn from its ESG commitments.



NBQ's new strategy is governed by its ESG Committee, which comprises high-level professionals, all experts in their fields.

Roles and Responsibilities

The RACI Matrix specifies how the Bank assigned each material topic to concerned units, committees and management.

Accordingly, each responsible, accountable, consulted and informed party at NBQ actively contributes to the Bank's ongoing ESG journey.

	Material Topic	R	A	C	I
BUSINESS EXCELLENCE AND CUSTOMER EXPERIENCE	Financial Performance	Business Units, Finance	Finance	Senior Management	Board
	Customer Experience	Business Units		Senior Management	
	Customer Privacy and Data Security	Business Units, IT, Information Security		Senior Management	
GOVERNANCE, TRANSPARENCY AND RISK MANAGEMENT	Governance, Business Ethics, Compliance, and Anti-corruption	Board Secretary	Board Ethics Committee	Board	
	Systemic Risk Management	Internal Audit	Risk Management	ESG Committee	Board
	ESG Risk Management	ESG Committee	Finance	Senior Management	Board
RESPONSIBLE BANKING	Financial Inclusion and Accessibility	Business Units, Credit, Finance		Senior Management	
	Responsible Banking	Business Units, Credit, Finance		Senior Management	Board
	Responsible Procurement	GSU, IT, Finance		Senior Management	
	Community Investment	HR, Marketing		Senior Management	
EMPLOYEE DEVELOPMENT AND DIVERSITY	Employee Wellbeing	HR		Senior Management	
	Learning and Development	HR		Senior Management	
	Emiratisation	HR		Senior Management	
	Diversity and Inclusion	HR		Senior Management	

[R - Responsible] [A - Accountable] [C - Consulted] [I - Informed]

BUSINESS EXCELLENCE AND CUSTOMER EXPERIENCE

Financial Performance

Customer Experience

Customer Privacy and Data Security

BUSINESS EXCELLENCE AND CUSTOMER EXPERIENCE

Financial performance

Following the nature of its business, it is important to highlight the key role that financial performance plays in its essence. It not only enables the continuity of its operations but also allows NBQ to carry out projects to sustain environmental and social imperatives.

38%
increase in Net Profits

9.46%
Non-Performance Loans ratio

28.93%
cost to income ratio

43.13%
Highest Tier 1 Ratio in the country

44.27%
Highest Capital Adequacy Ratio in the country

Furthermore, the Bank recognises the importance of a financial institution like NBQ in the overall economic growth of its community. NBQ is the privileged supplier of banking products and services to its local community, including the local government and businesses. It assists local firms in their growth by providing financial assistance in the form of loans, advances, and working capital financing; backing them with letters of credit and bank guarantees; and supplying them with items and services that promote their development.

As a result of the confidence and assistance that its shareholders have shown to the firm, it has been in the discipline of paying out dividends to shareholders on a regular basis ever since its inception. Dividends are distributed to the shareholders based on the approval obtained at the Bank's Annual General Meetings.

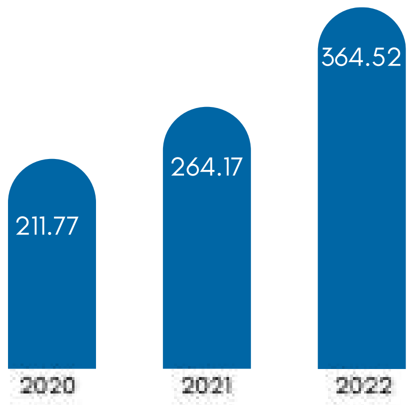
Since 2018, it has shown impeccable compliance with the VAT requirements and has always promptly reported to the tax office.

This year, the Bank's total assets increased by 463 million AED, bringing the total to 13,605 million AED. It also experienced a 162 million AED growth in client deposits and a cost-to-income ratio of 28.93%, 6% lower than in 2021.

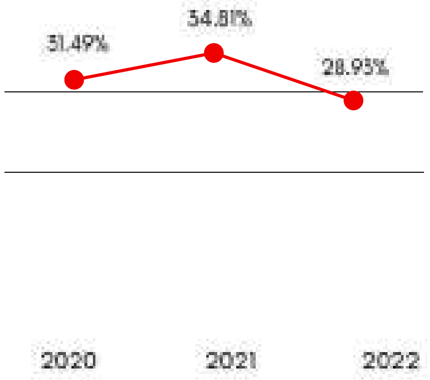
The bank is pleased to announce that its Capital Adequacy Ratio (44.27%) and Tier 1 Ratio (43.13%) are the highest in the nation.

As a result of the company's performance, NBQ has been able to show its gratitude toward the community by sponsoring and supporting local events and charities.

NET PROFIT (MILLION AED)



COST TO INCOME RATIO



In AED Millions

	2020	2021	2022
Total Assets	13,546.00	13,142.00	13,605.00
Loans	7,640.00	6,589.00	6,246.00
Deposits	8,225.00	7,700.00	7,862.00
Market Capitalisation (In millions)	3,696	3,418.8	3,580.00
Gross revenues	560.09	442.48	599.02
Total Income	472.96	392.68	535.01
Net revenue	324.21	256.11	380.22
Net profit	211.77	264.17	364.52

	2020	2021	2022
Capital Adequacy Ratio	41.45%	44.66%	44.27%
Tier 1 Ratio	40.34%	43.53%	43.13%
Common Equity Tier 1 Ratio	40.34%	43.53%	43.13%
Dividend %	8.00%	8.00%	10.00%
Net Interest Margin	2.78%	2.42%	3.50%
Adjusted EPS (Fils)	0.11	0.14	0.19
Return on Tangible Equity	4.47%	5.42%	7.02%
NPL Ratio	9.94%	8.60%	9.46%
Impaired Loan Coverage Ratio (Prov+Collateral)	167.84%	200.02%	183.10%
% of annual Profits donated to community purposes	0.07%	0.06%	0.02%

Loans and Advances in Islamic Banking

The loans, advances and Islamic financing receivables given to related parties have been secured against collateral amounting to AED 72.30 million (2021: AED 61.15 million). All loans and advances to related parties are classified as Stage 1 (31 December 2021: Stage 1) with corresponding Expected Credit Losses (ECL) of AED 0.84 million (31 December 2021: AED 1.91 million).

The table below shows the outstanding balances from transactions with related parties at the end of the reporting date.

	2022 AED' 000	2021 AED' 000
Related parties (excluding key management)		
Loans and advances and Islamic financing receivables	67,192	82,996
Customer deposits and Islamic customer deposits	3,394,210	2,750,770
Irrevocable commitments and contingent liabilities	121,611	205,706
Key Management		
Loans and advances and Islamic financing receivables	628	-
Customer deposits and Islamic customer deposits	1,225	822

Business Segments

Retail and corporate banking

Retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages. Corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and investments

Incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separate reportable segment.

	Retail and Corporate Banking AED' 000	Treasury and Investments AED' 000	Others AED' 000	Total AED' 000
Gross Income	324,165	115,530	56,141	495,836
Segment result	268,188	155,954	(59,626)	364,516
Segment assets	6,327,908	6,610,506	666,708	13,605,122
Segment liabilities and equity	8,096,985	NIL	5,508,137	13,605,122

Other segments consist of assets, liabilities, income and expenses attributable to either head office or not directly related to business segments.

For more information on our financial performance, please see our Financial Report for 2022.

Customer Experience

NBQ's customers are vital to the success of the company and improving their experience is one of the Bank's top priorities. NBQ's customer-focused initiatives show how committed the Bank is to satisfying its clientele's needs and expectations.

Its ongoing efforts to polish customer experience help NBQ staff members become familiar with its service objectives and develop their abilities to provide service excellence.

Responsible marketing and labelling

As a bank, NBQ is always on the client's side when it comes to service definitions, as it recognises the intricacy of the services it offers. Transparency is one of the Bank's major beliefs, which is represented across its operations, including its marketing practices.

Thanks to its diligent efforts, the Bank was able to reduce customer complaints over the course of three years. This is a significant achievement that NBQ is proud to carry.

Customer Privacy and Data Security

For NBQ, offering a banking experience characterised by excellence and cyber safety is one of its priorities. Therefore, in addition to the undoubted quality and positive customer experience, the Bank strives for its consumers to associate it with security and trust. A data security and privacy framework is essential for the Bank to establish a safe, trustworthy and enduring connection with its clients and other stakeholders.

The Information Security & Compliance Department of the Bank maintains data security and confidentiality according to global standards. Its data security systems and data privacy schemes safeguard client data stored by the Bank and adhere to compliance and regulatory standards. Internal and external parties undertake periodic evaluations and audits to assess the adequacy of the controls and report their findings to the Risk Department. Additionally, third-party contractors examine the control environment and identify any weaknesses, which are subsequently remedied by the Bank's management team.

NBQ has also committed to continuing its exemplary compliance with national and international standards and trained most of its employees in privacy and security matters.

NBQ has reinforced its cybersecurity and consumer information protection via the implementation of a renowned information security policy and procedure.

Data Security Highlights

Information security policies are the foundation of NBQ's security program which gives necessary policy guidelines. Its policies are based on internationally recognized Information Security Management System (ISMS) standards.

Policies along with relevant procedures help the bank to achieve the preservation of Confidentiality, Integrity and Availability of its critical information and related assets.

100%

Exemplary compliance with international standards

Fundamentals of NBQ's Data Security Policy

Confidentiality

Integrity

Availability

PCI DSS Certification (Payment Card Industry - Data Security Standard)

Swift CSP (Swift Customer Security Programme)

UAE IA (UAE Information Assurance)

Roll-out of ApplePay to ease secure digital payment of its customers.

GOVERNANCE, TRANSPARENCY AND RISK MANAGEMENT

Governance, Business Ethics and Compliance

Anti-corruption

Systemic Risk Management

ESG Risk Management

GOVERNANCE, TRANSPARENCY AND RISK MANAGEMENT

Governance, Business Ethics, and Compliance

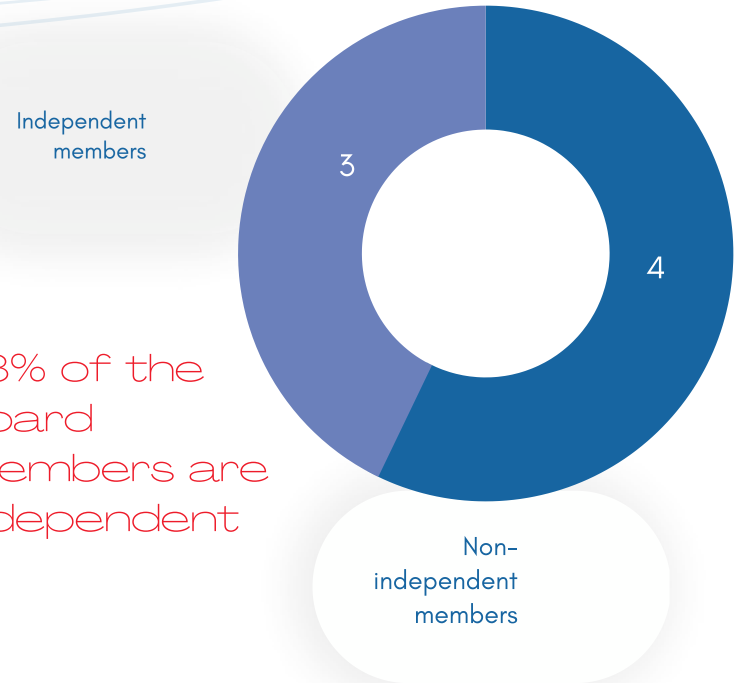
NBQ counts on a well-founded governance structure that provides the basis for a robust value system to be implemented across the corporation. Consequently, it encourages accountability and promotes transparent and efficient decision-making at all levels.

Board

The Bank's Board of Directors, the focal point for high-level decision-making, adheres to all pertinent national and international regulations and principles. These include but are not limited to; the UAE Central Bank Corporate Governance Regulation for Banks Circular No. : 83/2019, the Federal Law No. (32) of 2021 for commercial companies, all relevant resolutions such as the Resolution No. (3/RM) of 2020, as well as the internal Code of Conduct for Directors.

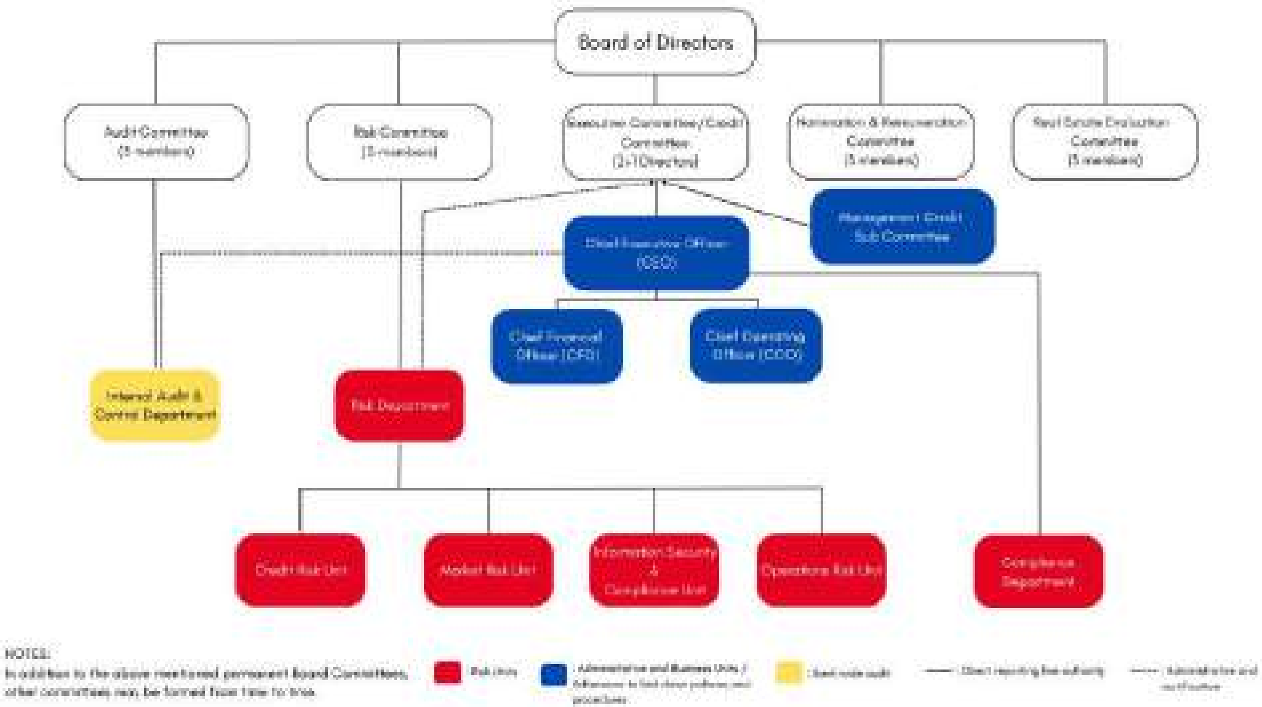
Board Composition

As per the previously stated Corporate governance regulation, the Board is composed of seven non-executive board members out of which three are independent members.



43% of the Board members are independent

Organisational Chart



Internal Committees

Guiding the corporation, there are seven different decision-making committees. All seven committees have different sets of authority and levels of power and all of them comply with the pertinent regulations.

- Risk Committee
- Executive Committee /Credit Committee
- Nomination and Remuneration Committee
- Audit Committee
- Management Credit Sub Committee
- Real Estate Evaluation Committee

Board Evaluation and Compensation

Further, as required, the evaluation of the Board's performance lies in the hands of the Nomination and Remuneration Committee.
Following the Federal Law No. (32) of 2021 for commercial companies' article (29) - Resolution No. (3/RM) of 2020, the bonus of the Chairman and Members of the Board of Directors shall not exceed (10%) of the profits for the Fiscal Year after deducting all the depreciations and reserves. As per regulation, these bonuses are independent of any additional expenses, fees, bonuses or monthly salaries the company may grant board members following the policies proposed by the Nominations and Bonuses Committee.

Compliance

The Bank appointed the Board of Directors as the major stakeholder responsible for monitoring compliance risks, including establishing compliance-related policies and overseeing the effective implementation of compliance measures. In response to rising expectations from the UAE Central Bank and other regulatory bodies about the implementation of this regulatory framework across all UAE institutions, the senior management has expanded its engagement, attention and monitoring of the Bank's overall compliance standing. In accordance with governance laws, the Compliance Department serves as a second line of defense.

Establishing a culture of compliance

Increasing staff awareness across all business lines and functions

Introducing the appropriate set of policies, processes and procedures

Providing the appropriate resources and technology to implement these policies and procedures

Anti-Corruption

The Bank, its subsidiaries and affiliates strive to conduct all business-related activities with responsibility, efficiency and integrity - and in a transparent manner towards all its stakeholders. The Bank has defined several essential policies to ensure professional conduct and assert zero tolerance for corruption.

Anti-bribery and anti-corruption policy

The Bank, its subsidiaries, and its affiliates endeavour to execute all business-related operations with accountability, efficacy and honesty - and in a transparent way towards all of its stakeholders. The Bank establishes minimal requirements in accordance with UAE legislation and UAE Central Bank rules. This policy charter has been adopted by the Nominations and Remunerations Committee and the Board and applies to the Bank, its subsidiaries and its affiliates.

Code of Conduct

In accordance with the UAE Central Bank's regulations, all Bank employees and Directors must adhere to the Bank's professional code of conduct. The aim of the code of conduct, its application, reporting obligations, confidentiality and disclosures, the necessity of honesty and integrity and a list of infractions are outlined in this policy. To guarantee compliance, reporting processes are also described in full. The Nominations and Remunerations Committee and the Board have adopted this charter, which applies to the Bank, its subsidiaries and its affiliates. As of 2022, NBQ proudly has no records of breaches of the Code of Conduct.

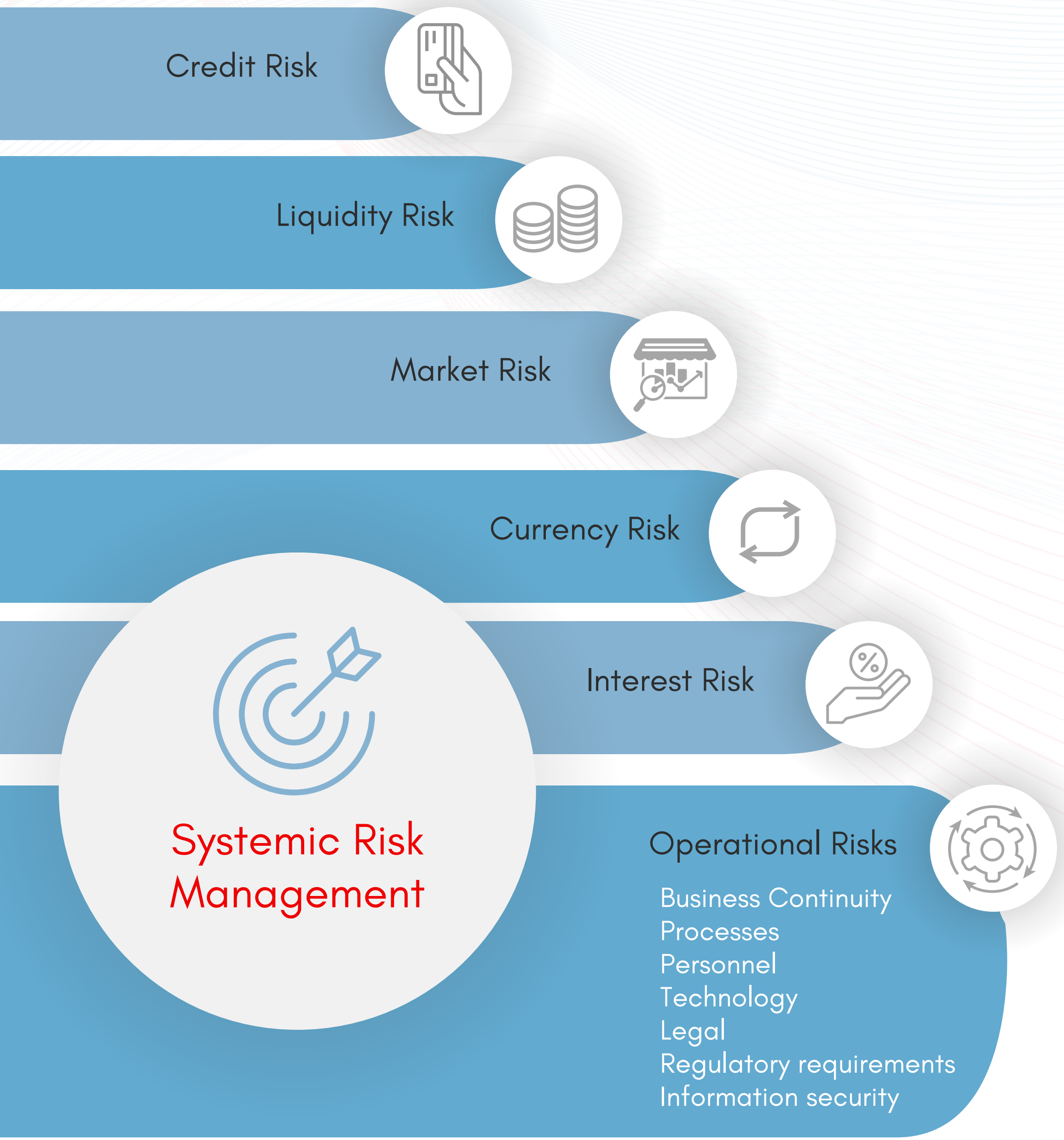
Insider Trading Regulation

The Bank has a clear insider trading policy to exert control over share movements caused by transactions by Bank insiders with access to non-public price-sensitive information. The policy requirements, instances of price-sensitive information and other limits are communicated to all insiders. ADX enforces the "no-trade period" and prohibits insiders from trading Bank shares during this time. The Nominations and Remunerations Committee and the Board have adopted this charter, which applies to the Bank, its subsidiaries and its affiliates.

Whistleblower policy

The Whistleblower Policy describes its intent, scope, reportable offences and processes. The Bank protects confidentiality, and any false accusations are deemed to be a serious offence. The Bank maintains the strictest secrecy about reported occurrences, unless otherwise mandated by judicial proceedings or disclosure laws. The Nominations and Remunerations Committee and the Board have adopted this charter, which applies to the Bank, its subsidiaries and its affiliates.

Systemic Risk Management



As a bank, NBQ constantly analyses, evaluates, accepts and manages a certain amount of risk or a mix of risks that come with conducting its various operations. Risk-taking is at the heart of the financial industry and every company must deal with the inherent dangers of daily operations. The Group's objective is to strike a healthy balance between risk and return while limiting any negative impact on the business's bottom line.

The Bank takes these risks into account as part of its overall strategic planning and risk management processes. Awareness, assessment and proper monitoring of these material risks are the main focuses of the risk management plan. NBQ's continued attention is directed at the proactive improvement of its enterprise risk management culture, methods and procedures.

For more information on NBQ's Systemic Risk Management structure, please refer to its Corporate Governance Report, as well as its Financial Report for 2022.

ESG Risk Management

ESG Risk Management standards are essential to NBQ since it represents the commitment to its stakeholders. As a result, it has opted to closely align its operations with worldwide risk management standards.

As a bank, it knows that financial inclusion and accessibility are important considerations when building products or deciding on distribution methods.

NBQ has created a set of procurement policies that adhere to the highest international standards while placing sustainability at the forefront of its decision-making. These processes include the Onboarding Vendors Assessment, which happens prior to vendor incorporation and the Vendors' Annual Assessment, which assists the Bank in ensuring that their values remain consistent with the values at NBQ.

RESPONSIBLE BANKING

Financial Inclusion and Accessibility

Environmental Stewardship

Responsible Procurement

Community Investment

RESPONSIBLE BANKING

NBQ has posed itself the goal of becoming a sustainability leader and standing out for its integral application of social and environmental sustainability principles into its value creation process. As part of that journey, the Bank has embedded best practice examples into all areas of its business model.

The Bank's Responsible Banking model encompasses four focus areas that reflect its efforts in acting as a responsible business

Financial Inclusion and Accessibility

Environmental Stewardship

Responsible Procurement

Community Investment

Financial Inclusion and Accessibility

Digitization continues to be one of the primary tactics outlined in the digital transformation plans and the driving force behind NBQ's consumer commitment objectives. This commitment focuses on client acquisition, engagement and experience, which is supported by plans for digitisation and the development of financial systems.

Accessibility Highilights

- ATMs are at a height that allows wheelchair users free access
- Bilingual literature materials for visual guidance and multilingual customer service resources
- Access ramps are provided for easy and smooth access
- ATMs are equipped with sanitisers and are cleaned frequently in accordance with Covid-19 protocols

NBQ provides e-banking and mobile banking channels for improved client service and easy accessibility as well as ATMs for cash and check deposits, and cash withdrawals.

The Bank is in the process of modernising its customer relationship management (CRM) software to incorporate all service level agreements with enhanced deadlines as part of its commitment to providing superior customer service.

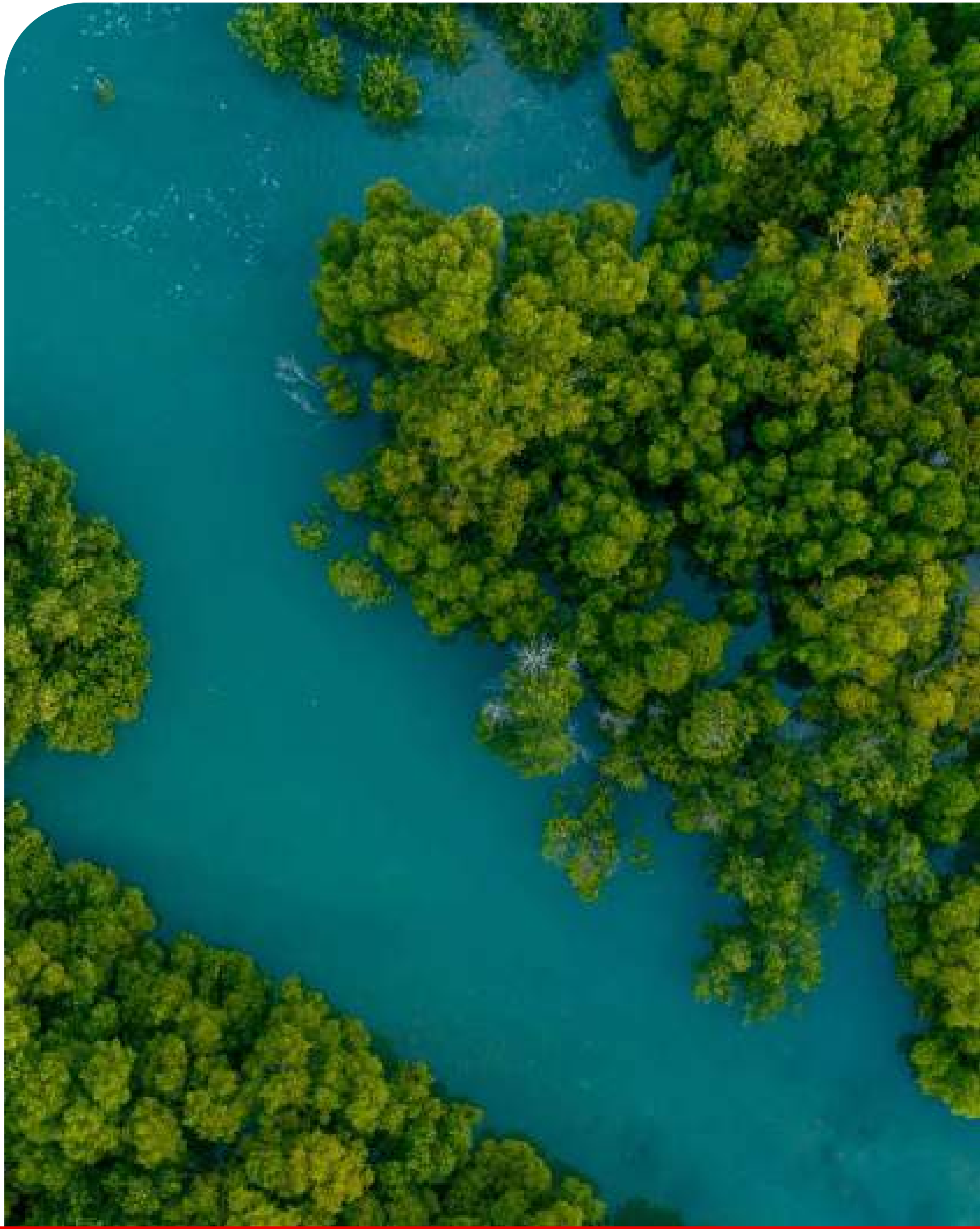
NBQ's ATMs are conveniently located in densely inhabited and sparsely populated locations in order to provide greater coverage.

Environmental Stewardship

The Bank's approach to the environment is to reduce its environmental footprint while using its resources to the maximum efficiency possible. The Bank has taken multiple initiatives around different aspects of its impact on the planet as its commitment to a cleaner future.

NBQ pledges to enable a cleaner future established around the metrics of materials, waste, water consumption, energy consumption and reducing its carbon footprint.

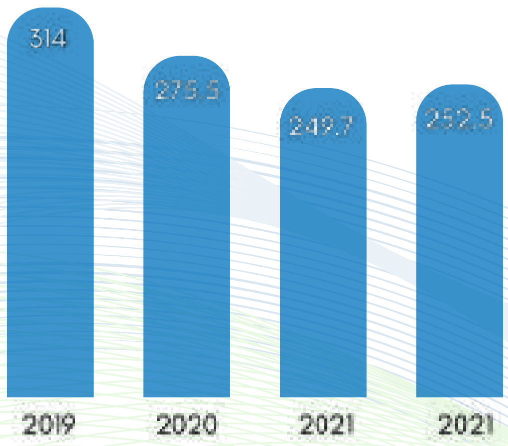
Nonetheless, its commitment does not end there, the Bank believes in the importance of continuous actualization and therefore it is constantly working to improve via the guidance of experts, innovation and best practice examples among peers in the sector.



Materials

As a bank, its largest share of materials used is office supplies. These are carefully selected keeping in mind the recyclability of the materials and assessing the vendor's positioning when it comes to environmental imperatives. For example, when it comes to paper, it uses the A4 Navigator paper. The particularity of this paper is that both, paper and packaging, are 100% recyclable.

A4 PAPERS CONSUMPTION -SHEETS IN MILLIONS



19.777%

reduction in paper consumption since 2019

62,250,000

sheets saved since 2019

Waste

NBQ has waste segregation bins distributed in the Head Office and Dubai Main Branch. This facilitates the recycling of different materials, such as paper, which the Bank recycles through concerned municipal services.

On the other hand, to ensure that the waste generated is managed as per the highest standards, NBQ has selected for its Dubai Main Branch a widely recognised company (Dulsco) that works for its community and strives for excellence, values the Bank identifies with.

Thanks to this fruitful partnership with ENDOSHRED, it was able to recycle 7,260 kg of paper.

The Bank is aware that waste generation and the negative implications of poor waste management is one of the world's greatest sustainability challenges. Thus, NBQ has taken a number of measures to minimise its waste and ensure what is generated is correctly managed.

7,260 kg
of paper recycled in 2022

123.42
trees saved

50,820
gallons of water saved

29,040
kW of energy saved

* Given 200 being the average number of A4 paper sheets in a kg.

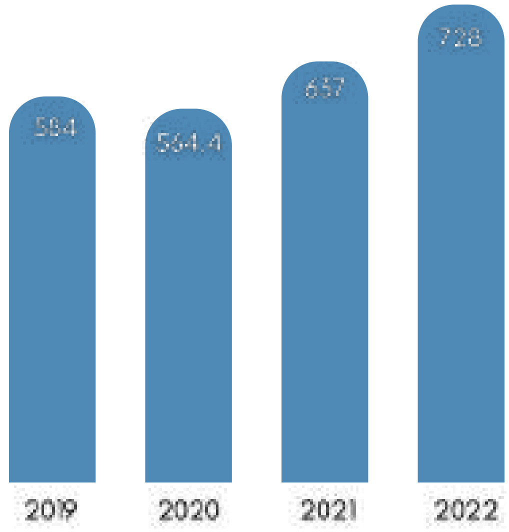
Water

During the year 2022, NBQ utilised 727,980 gallons of water in its headquarters. It installed a wastewater treatment system, which recycles the water used and reuses it to irrigate its plants.

NBQ has accomplished two aims by doing so:

- conserving water
- growing plants to make the region more ecologically friendly.

WATER CONSUMPTION - THOUSAND GALLONS



100% Using a recycling pump, 100% of the water utilised in the head office is recycled and used to irrigate plants.

584 plants It watered 584 plants from the 727,980 Gln utilised by the Head Office in 2022.

Energy and Carbon

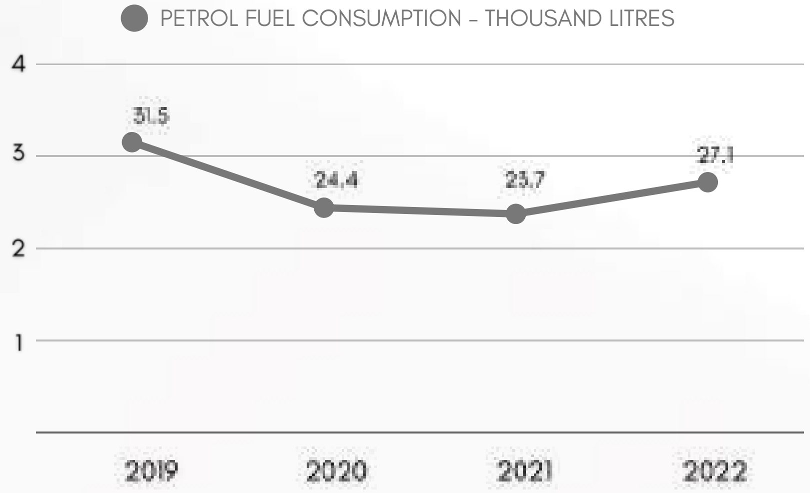
NBQ has also decreased the number of company vehicles in circulation with the scope of reducing its petrol fuel consumption. Accordingly, the Bank reduced its consumption by 4,344.99 litres - 13.78%compared to 2019.

13.78% **decrease in petrol consumption** comparing to year 2019

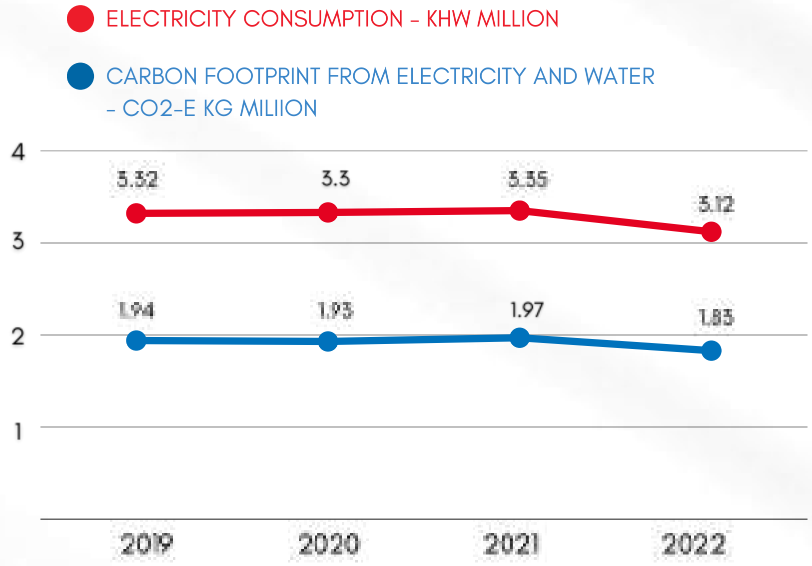
6.78% **decrease in CO2 emissions** comparing to year 2021

To reduce its energy consumption, the Bank has implemented a Building Management System (BMS) in its Head Office. This system enables it to manage electricity usage and air conditioning throughout the building, consequently leading to reducing unnecessary consumption of electricity. It has switched to LED lightbulbs in the Head Office and the Dubai main branch. It has also installed a new air conditioning chiller in its Head Office which allowed it to save on electricity consumption. These changes allowed it to reduce its energy consumption by 227,535 kWh, equivalent to 6.78% in its Head Office.

Scope 1



Scope 2



Responsible Procurement

When NBQ engages a supplier or vendor, it recognizes that it also represents the organisation and its values.

To ensure that the values of its suppliers correspond with the Bank's, it has enacted a policy that all vendors must adhere to. This policy emphasises the importance of working with local suppliers as well as having a sustainability agenda in place that corresponds with the UAE and worldwide vision. Regarding its labour policies, NBQ closely adheres to the highest international banking standards and national legislation.

To promote a productive partnership that fosters trust and the generation of value for all of its stakeholders, NBQ has implemented a series of standards and rules prior to, during and post-vendor listing. Before listing potential vendors, it must conduct a background check as required by Anti Money Laundering (AML) regulations. The Bank evaluates the vendor's client list, activities,businesslicence, VAT,location,numberofworkers,data management, prices and scope of work.

In addition, all suppliers must adhere to a set of regulations during the entirety of their incorporation process in order to safeguard the safety of all parties involved and prevent possible misconduct. These rules include

- presenting an ID and signing before entering the bank's premises,
- vendors being escorted by bank personnel,
- general staff being prohibited from accepting gifts exceeding AED200
- and vendors being required to adhere to all safety protocols.

NBQ has an internal control system to mitigate fraud and corruption. It has also started screening its vendors through Compliance Department (CIC) to guarantee the highest standards are applied when executing vendor assessments.
Additionally, it started analysing its vendors from a sustainability perspective. In 2022, the Bank identified 53 local suppliers and completed the screening for 28 vendors. The process is currently being carried out and is expected to be concluded in 2023.

Community Investment

Since its founding in 1982, the Bank's support to communities has been the cornerstone of its community development approach. It has collaborated with non-profit organisations and worked on community and civic development in the UAE through partnership programmes and sponsorships. Some examples include the Saud bin Rashid Al Mualla Charitable and Humanitarian Activity Institution, the Al Arabi Sports & Cultural Club, the Umm Al Quwain camel race and the 51st National Day Celebration in UAQ.

In 2022, NBQ actively took part in several activities supporting the national sustainable development agenda as well as social programmes.

The Bank feels privileged to have the opportunity to care for and support the growth of its local communities through financial assistance. In 2022, it ensured all its branches counted with wheelchairs to be used by customers and staff, as well as the infrastructure necessary to accommodate them such as ramps and reserved parking spaces.

Looking into the future, NBQ will be creating a program committed to securing funds for social and environmental causes that will nurture its people and the planet.

Moreover, as part of its approach to community development, the Bank proposes to allocate a reasonable amount which is expected to be more than the previous year.

195

This year, NBQ's inspiring and purpose-driven workers volunteered a total of 195 hours in support of corporate social responsibility initiatives.

In the coming years, leveraging on its strong sense of corporate responsibility, NBQ will donate specific amounts per quarter to increase its potential for good impact.

Snapshots from NBQ's Community Engagement

UAE Flag Day

Camel Race Sponsorship

2022

UAQ free zone opening

NBQ Compliance With PCI DSS

EMPLOYEE DEVELOPMENT AND DIVERSITY

Employee Well-being

Learning and Development

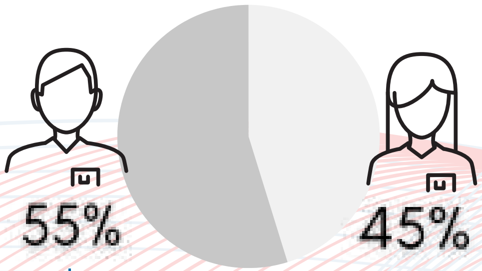
Emiratisation

Diversity and Inclusion

EMPLOYEE DEVELOPMENT AND DIVERSITY

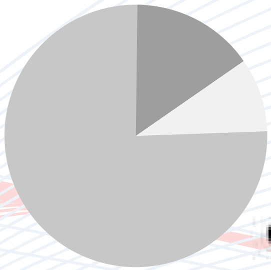
Our Team at a Glance

323 Talented individuals consist our workforce

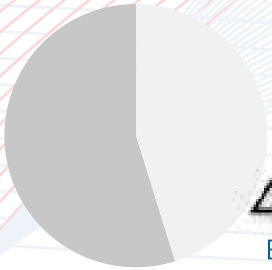


55% male

45% female



69.6% 31-50 years old



44% Emirati

20+ different nationalities

Employee Well-being

As the Bank's most valuable asset, NBQ takes excellent care of its employees; their well-being both inside and outside of the workplace is of utmost importance to the Bank.

NBQ has put in place a series of benefits, services, facilities and resources for the physical, emotional and financial well-being of its workers as well as formulated rules for employee welfare.

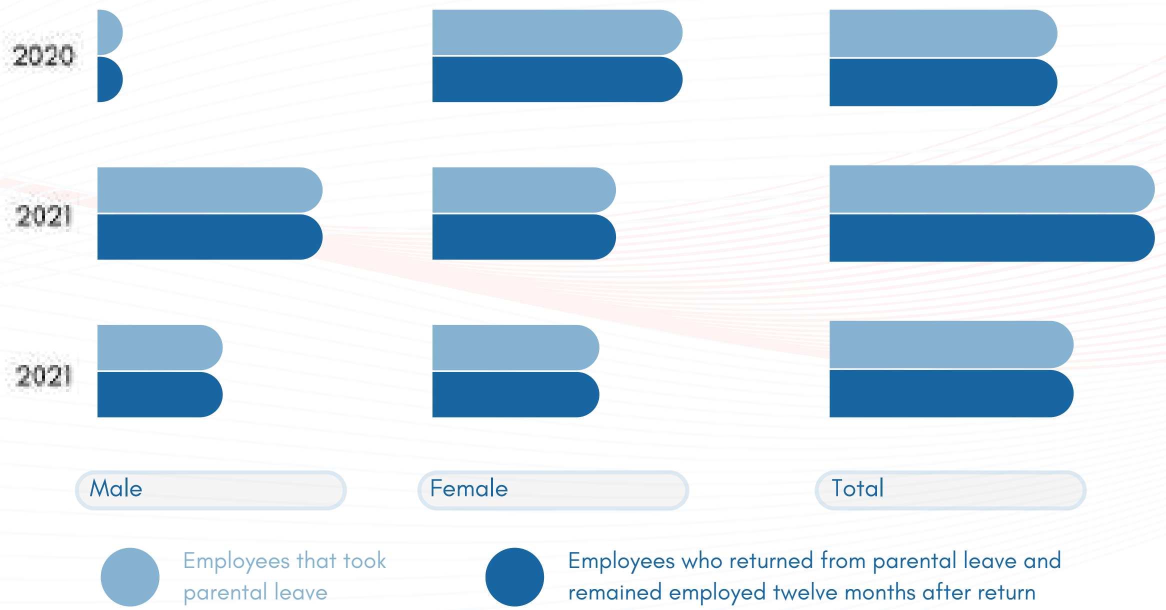
NBQ is proud to highlight that for the third consecutive year, it had a 100% parental leave return rate with all 15 employees coming back.

- Flexible attendance policies
- Flexible nursing hours for young mothers
- Comprehensive medical insurance from reputable insurers
- Health awareness and medical leave in accordance with labour law
- Parental leave
- Hospital emergency care services with the assistance of hospitals
- Group policies with substantial compensation for employees with prolonged serious illness or incident

5 5 male employees took paternity leave in 2022

10 10 female employees took maternity leave in 2022

All employees who left for paternal leave returned to work



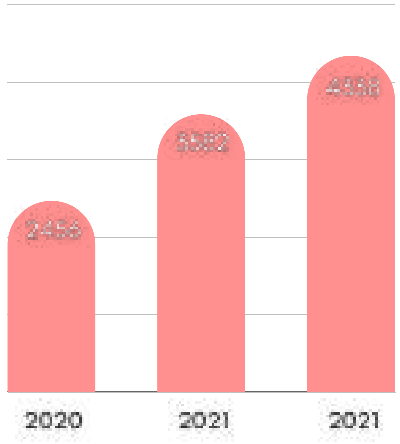
Learning and Development

Supporting the integral personal and professional growth of its people is crucial to the organisation and its value creation. NBQ has integrated on-the-job training with external training and courses so that all of its employees can enhance their abilities and realise their full potential.

In 2022, the Bank spent 1,142,254 AED on employee training. This equated to a total of 3,833 hours of e-learning, or an exceptional 13.1 hours per employee. 89% of these training hours were delivered to employees in middle management and non-management positions. The training sessions covered multiple categories, including:

- Anti Money Laundering
- Information Security Awareness
- Fraud Prevention & Detection
- Harnessing Human Capital Mission 2022-2026 with Emirates Institute of Banking and Financial Studies (EIBFS) Learning Journey

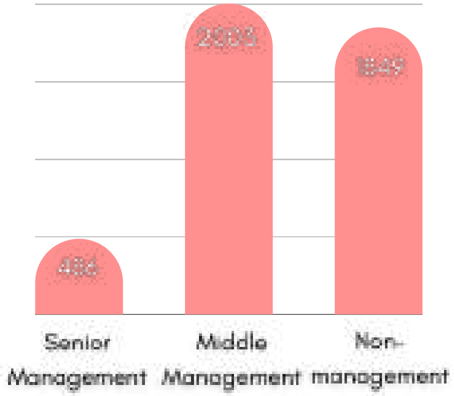
The primary strategic pillars of the Bank's training activities were agenda-based and included upskilling, reskilling and skilling so that employees attained the necessary competency levels.



TOTAL TRAINING HOURS

76%

of increase in total training hours since 2020



TRAINING HOURS PER EMPLOYEE CATEGORY

89%

of the training was provided to non-management and middle management personnel

1,142,254 AED

spent on training in 2022

4,338

hours of learning in 2022

13.1

hours of learning per employee

NBQ is mindful of the importance of Emiratisation to the nation's social and economic development. It recognizes its significance and has a deep conviction in the immense potential of the nationals; hence, it has set work policies to nurture and develop this talent as its priority has always been to equip UAE nationals with the means to progress into leadership positions.

Emiratisation

The strength of NBQ's dedication has positively impacted its outcomes in 2022, as it has increased the overall number of UAE citizens in its staff by 11% with a total of 142. The Bank is pleased to highlight that from these 142 employees, 123 are women, constituting 87% of this group.

44% of the workforce is Emirati

1/3 of the senior leadership is Emirati

87% of the Emirati staff are women

Diversity and Inclusion

NBQ recognizes the significance of empowering women, assisting minorities, and cultivating young talent. The Bank celebrates its differences as they are an asset to the organisation; they enrich its corporate culture and guide it down the path to value creation.

The Bank believes in equal opportunities for all individuals. It recognizes its employees on the basis of their work, not their nationality or race. This year, the company had the privilege to host over twenty nationalities, all of whom were represented by exceptional individuals.

EMPLOYEES PER CATEGORY AND GENDER

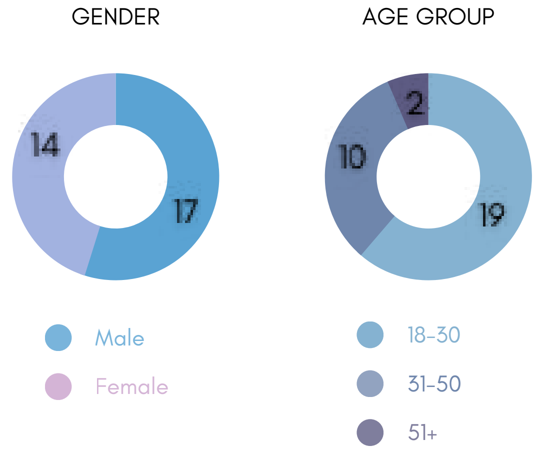
Employee Category	Male	Female	Total
Senior Management	44	16	60
Middle Management	85	70	155
Non-management	48	60	108

Youth Employment

In an effort to support the younger generations, the majority of its hires this year are under the age of 30; in 2021 and 2020, most of its new hires were between the ages of 31 to 50.

Thirty students were supported as part of internship and student visits to encourage their employment in the banking sector.

NUMBER OF NEW HIRES IN 2022



In 2022, it hired 12 females under the age of 30, a substantial number relative to any other age or gender group.

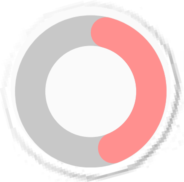
Gender Equality

NBQ's talented staff consists of 323 employees that represent it throughout the Emirates. The Bank believes it is important for its values to be reflected in its workforce, so it has actively sought to increase the number of women working in the industry. This year, the number of female employees climbed from 138 to 146, representing 45% of its workforce, a bigger proportion than that in 2021 and a significant achievement for NBQ. This is a milestone for the company that is immensely proud to share, but it will continue to strive for equality in all areas.

NBQ would also want to highlight the equality achieved between male and female employees in non-management and middle management, with 133 male employees and 130 female employees. It is currently working towards expanding this gender parity across all areas of the management.

Its "equal pay for equal work policy" incorporates all these principles into a single statement of its commitment to compensating all employees fairly for comparable work, regardless of their gender, age, or country of origin.

Equal pay for equal work Policy



45%

of its employees are females

27%

of senior management are women

Health and Safety

The Bank's employees are the powerful engine behind its success and therefore, ensuring their integral well-being, is one of the priorities at NBQ.

In accordance with world-class best practices and legal standards, the Bank implements a set of rules and guidelines that outline the method to follow and the duties to fulfil in the occurrence of any workplace events. Specifically, its Business Continuity Management Systems (BCMS) manuals include all processes to be followed in the event of a disaster, ranging from crisis reporting to an evacuation reaction plan.

Its trained and certified security personnel and Crisis Management Team are responsible for ensuring the physical safety of all workers and customers in its facilities.

Currently, the Bank holds UAE Civil Defense Safety Certificates for all NBQ branches. All of its workers have access to a first aid kit, a sterilised workplace, CCTV surveillance, 24-hour fire alarm systems, floor-by-floor fire marshals and simulated evacuation exercises to guarantee their safety. It also conducts regular maintenance of the firefighting systems.

The Covid-19 epidemic was a difficult time for various businesses, including the banking sector. However, this tumultuous era taught the Bank a number of lessons that are now included in NBQ's ongoing Operational Health and Safety procedures.

As preventive steps in reaction to the Covid-19 outbreak, it implemented standards for safe social distancing at work, as well as the option to work from home and other places. All implemented measures adhere to the applicable national laws regarding Covid-19 measures. The number of instances among the Bank's staff has been kept under control and the negative impact on its operations, employees, and customers has been mitigated.

NBQ's trained and certified security personnel and Crisis Management Team are responsible for ensuring the physical safety of all workers and customers on its facilities.

0 Health and safety incidents related to non-compliance

100% Fully compliant with health and safety regulations

NBQ's goal is to grant its customers the best and safest banking experience

GRI AND ADX INDEX

GRI STANDARD	DISCLOSURE	LOCATION	OMISSION	ADX ESG Guidelines Reference
GRI 2: General Disclosures 2021	2-1 Organizational details	04, 08, 56		S1 S4 S5 E8 E9 G8 G9
	2-2 Entities included in the organization's sustainability reporting	04		
	2-3 Reporting period, frequency and contact point	04		
	2-4 Restatements of information	NA		
	2-5 External assurance	04		
	2-6 Activities, value chain and other business relationships	08		
	2-7 Employees	45-46		
	2-8 Workers who are not employees	45-46		
	2-9 Governance structure and composition	29		
	2-10 Nomination and selection of the highest governance body	28		
	2-11 Chair of the highest governance body	28		
	2-12 Role of the highest governance body in overseeing the management of impacts	19		
	2-13 Delegation of responsibility for managing impacts	19		
	2-14 Role of the highest governance body in sustainability reporting	19		
	2-15 Conflicts of interest	31		
	2-16 Communication of critical concerns	18, 31		
	2-17 Collective knowledge of the highest governance body	31		
	2-18 Evaluation of the performance of the highest governance body	30		
	2-19 Remuneration policies	30		
	2-20 Process to determine remuneration	30		
	2-21 Annual total compensation ratio	NA		
	2-22 Statement on sustainable development strategy	13		
	2-23 Policy commitments	13-19		
	2-24 Embedding policy commitments	13-19		
	2-25 Processes to remediate negative impacts	31		
	2-26 Mechanisms for seeking advice and raising concerns	13-19,31		
	2-27 Compliance with laws and regulations	30		
	2-28 Membership associations	10, 26		
	2-29 Approach to stakeholder engagement	16		
	2-30 Collective bargaining agreements		Omitted - Collective bargaining is not allowed within the UAE laws	

GRI STANDARD	DISCLOSURE	LOCATION	OMISSION	ADX ESG Guidelines Reference
Material Topics				
GRI 3: Material Topics 2021	3-1 Process to determine material topics	17		
	3-2 List of material topics			
Economic performance				
GRI 3: Material Topics 2021	3-3 Management of material topics	21-23		
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed			
	201-2 Financial implications and other risks and opportunities due to climate change	33		
	201-3 Defined benefit plan obligations and other retirement plans	45-50		
	201-4 Financial assistance received from government	09		
Market presence				
GRI 3: Material Topics 2021	3-3 Management of material topics	48		S11
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	NA		
	202-2 Proportion of senior management hired from the local community	48		
Indirect economic impacts				
GRI 3: Material Topics 2021	3-3 Management of material topics	14-15		
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported			
	203-2 Significant indirect economic impacts			
Procurement practices				
GRI 3: Material Topics 2021	3-3 Management of material topics	41		
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers			
Anti-corruption				
GRI 3: Material Topics 2021	3-3 Management of material topics	31		G5
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption			
	205-2 Communication and training about anti-corruption policies and procedures			
	205-3 Confirmed incidents of corruption and actions taken	NA		

GRI AND ADX INDEX

GRI STANDARD	DISCLOSURE	LOCATION	OMISSION	ADX ESG Guidelines Reference
Anti-competitive behavior				
GRI 3: Material Topics 2021	3-3 Management of material topics	NA		
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	NA		
Tax				
GRI 3: Material Topics 2021	3-3 Management of material topics	21		
GRI 207: Tax 2019	207-1 Approach to tax			
	207-2 Tax governance, control, and risk management			
	207-3 Stakeholder engagement and management of concerns related to tax			
	207-4 Country-by-country reporting		NBQ is only present in the UAE	
Materials				
GRI 3: Material Topics 2021	3-3 Management of material topics	38		E7
GRI 301: Materials 2016	301-1 Materials used by weight or volume			
	301-2 Recycled input materials used			
	301-3 Reclaimed products and their packaging materials			
Energy				
GRI 3: Material Topics 2021	3-3 Management of material topics	40		E3 E4 E5 E7
GRI 302: Energy 2016	302-1 Energy consumption within the organization			
	302-2 Energy consumption outside of the organization			
	302-3 Energy intensity			
	302-4 Reduction of energy consumption			
	302-5 Reductions in energy requirements of products and services			
Water and effluents				
GRI 3: Material Topics 2021	3-3 Management of material topics	39		E6
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource			
	303-2 Management of water discharge-related impacts			
	303-3 Water withdrawal			
	303-4 Water discharge			
	303-5 Water consumption			

GRI STANDARD	DISCLOSURE	LOCATION	OMISSION	ADX ESG Guidelines Reference
Emissions				
GRI 305: Emissions 2016	3-3 Management of material topics	40		E1 E2
	305-1 Direct (Scope 1) GHG emissions			
	305-2 Energy indirect (Scope 2) GHG emissions			
	305-3 Other indirect (Scope 3) GHG emissions	NA		
	305-4 GHG emissions intensity	NA		
	305-5 Reduction of GHG emissions	40		
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	NA		
Waste				
GRI 3: Material Topics 2021	3-3 Management of material topics	38		E7
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts			
	306-2 Management of significant waste-related impacts			
	306-3 Waste generated			
	306-4 Waste diverted from disposal			
	306-5 Waste directed to disposal			
Supplier environmental assessment				
GRI 3: Material Topics 2021	3-3 Management of material topics	41		E7
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria			
	308-2 Negative environmental impacts in the supply chain and actions taken			
Employment				
GRI 3: Material Topics 2021	3-3 Management of material topics	46-49		S3
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	49		
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	46		
	401-3 Parental leave			

GRI AND ADX INDEX

GRI STANDARD	DISCLOSURE	LOCATION	OMISSION	ADX ESG Guidelines Reference
Labor/management relations				
GRI 3: Material Topics 2021	3-3 Management of material topics	NA		
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	NA		
Occupational health and safety				
GRI 3: Material Topics 2021	3-3 Management of material topics	51		S7 S8
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system			
	403-2 Hazard identification, risk assessment, and incident investigation			
	403-3 Occupational health services			
	403-4 Worker participation, consultation, and communication on occupational health and safety			
	403-5 Worker training on occupational health and safety			
	403-6 Promotion of worker health			
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships			
	403-8 Workers covered by an occupational health and safety management system			
	403-9 Work-related injuries			
Training and education				
GRI 3: Material Topics 2021	3-3 Management of material topics	47		
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee			
	404-2 Programs for upgrading employee skills and transition assistance programs			
	404-3 Percentage of employees receiving regular performance and career development reviews	NA		
Diversity and equal opportunity				
GRI 3: Material Topics 2021	3-3 Management of material topics	49-50		S2 S4 S6 G1
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees			
	405-2 Ratio of basic salary and remuneration of women to men	NA		

GRI STANDARD	DISCLOSURE	LOCATION	OMISSION	ADX ESG Guidelines Reference
Non-discrimination				
GRI 3: Material Topics 2021	3-3 Management of material topics	49-50		
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken			
Freedom of association and collective bargaining				
GRI 3: Material Topics 2021	3-3 Management of material topics		Omitted - Collective bargaining is not allowed within the UAE laws	
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk			
Local communities				
GRI 3: Material Topics 2021	3-3 Management of material topics	13-14 and 42		S12
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs			
	413-2 Operations with significant actual and potential negative impacts on local communities			
Supplier social assessment				
GRI 3: Material Topics 2021	3-3 Management of material topics	41		G4
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria			
	414-2 Negative social impacts in the supply chain and actions taken			
Customer health and safety				
GRI 3: Material Topics 2021	3-3 Management of material topics	25 - 26		
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories			
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services			
Marketing and labeling				
GRI 3: Material Topics 2021	3-3 Management of material topics	24		
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling			
	417-2 Incidents of non-compliance concerning product and service information and labeling			
	417-3 Incidents of non-compliance concerning marketing communications			

GRI AND ADX INDEX

GRI STANDARD	DISCLOSURE	LOCATION	OMISSION	ADX ESG Guidelines Reference
Customer privacy				
GRI 3: Material Topics 2021	3-3 Management of material topics	25 - 26		G6
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data			

Topics in the applicable GRI Sector Standards determined as not material
Biodiversity
Indigenous Peoples
Child Labor
Forced and Compulsory Labor
Public Policy

National Bank of Umm Al Qaiwain (P.S.C.) is Licensed by the Central Bank of the UAE

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Management Discussion and Analysis Report - 2022

Financial Overview

National Bank of Umm Al Qaiwain (NBQ) has always pursued various initiatives to improve operational efficiency, enhance customers' convenience, and increase the bank's competitive strength in the UAE Banking Sector.

This year, the bank has achieved a net profit of AED 364.52 million, 38% more than the net profit of last year. Net interest income for the whole year stood at AED 398 million, a 44% increase over the previous year, while operating income grew by 48% to AED 380 million. Total assets reached AED 13.61 billion, gross loans and advances were AED 6.58 billion, while customer deposits stood at AED 7.86 billion. Reflecting prudent management and effective monitoring of our loans and advances portfolio, the bank holds collateral and specific provision for 183.10% of the non-performing loans. Further, the bank has consistently maintained a high level of liquidity as in the past, and the liquidity ratio as of 31 December 2022 stood at 50.06%, while the cost-to-income ratio is 28.93% compared to 34.81% in 2021, improved 588 basis points on the year, which reflects the bank's operational efficiencies and disciplined cost management.

As a testament to the bank's financial capability, lending, and investment capacity as of 31 December 2022, the shareholders' equity amounted to AED 5.32 billion. The bank maintains one of the highest capital adequacy ratios in the banking industry at 44.27%. This is significantly higher than the minimum levels prescribed by the Central Bank of the UAE. Moreover, the Tier 1 ratio stands at 43.13%, which is also substantially higher than the defined limits stipulated by the regulatory authorities.

Economic Overview

Central Bank of the UAE's latest estimates suggested a 7.6% growth in 2022 in the UAE's economy due to the robust performance of non-oil sectors, including tourism, hospitality, real estate, transportation, and manufacturing. The Central Bank predicted the non-oil GDP to grow by 6.1% while an 11% peak was expected in the oil GDP.

International Monetary Fund (IMF) had projected the UAE's economy to grow by over 6.0% in 2022 on account of increased foreign investment inflow into the country after the Government successfully handled the pandemic**,** enhanced domestic activity, made sweeping visa reforms and allowed 100% foreign ownership of businesses. Visa reforms and the move to allow full foreign ownership in the businesses are expected to yield positive short-term and medium-term economic results.

A closer look reveals that the crude oil prices rose significantly in the first half of 2022 due to the Russian- Ukrainian war coupled with the decrease in global crude oil inventory but declined in the second half of the year due to concerns about a possible economic recession. This reduced oil demand while supply from the US and International Strategic Petroleum reserves increased. Despite the odds, UAE economy managed to maintain an average price of USD 100/- per barrel in 2022.

In 2023, oil prices will likely average around USD 89/- per barrel due to high inflation and rising interest rates, dampening the oil demand. Simultaneously surging COVID-19 cases in China have been depressing the outlook for oil demand growth in 2023. OPEC+ is expected to increase oil production in the event of Russia's severe drop in production due to western sanctions on Russian oil, which will favorably affect the UAE.

GCC stock markets registered decent growth in 2022, while ADX registered a 20.3% y-o-y growth and DFM gained 4.4%. New listings in the UAE and Saudi Arabia have seen strong investor interest, fetching USD 18 billion in 2022. During 2023, over 11 companies are lined up to be listed on the ADX, making the Middle East a bright spot in the Initial Public Offerings market. Additionally, the stock markets are expected to see an upside trend in 2023 due to expected better corporate earnings growth.

The interest rate increase is likely to continue in 2023, if inflation remains above acceptable levels although at a reduced pace as compared to 2022. GCC Banks were expected to post robust results during 2022 due to potent economic activity, higher interest rates, and elevated oil prices. However, in 2023, the anticipated slowdown of the global economy could affect the region through lower oil prices. As local and international liquidity becomes less available, banks may face constraints in funding their growth strategies. Nevertheless, the banking system in UAE, particularly the NBQ, remains sufficiently well-placed to withstand any such liquidity crunch. This resilience stems from the fact that the bank has high governance standards and a clear strategy to enhance shareholder returns by grabbing growth opportunities in various business segments have provided positive results to the bank during the year.

<u>Treasury, Investments, and Institutional Banking</u>

NBQ's prudent investment strategy resulted in enhanced yields on its investments. Higher yields on the investment portfolio synchronised with the increase in market yields during the year. The bank's approach of safety, along with decent returns, has earned good income during the year through dividends from the equity portfolio, capital gains, and interest income from bonds, syndicated and bilateral loans. NBQ could maintain sound and stable income from the investment portfolio by adopting prudent investment policies and exit strategies, while internal reporting mechanisms were practiced mitigating risks on the exposures.

<u>Wholesale Banking</u>

In 2022, the Wholesale Banking Division (WBD) maintained a healthy and quality portfolio with a predominant focus on diversifying assets across multiple sectors, including but not limited to trading, services, and manufacturing. It is further committed to penetrating its wallet share into Government Related Entities (GRE) space through loan syndication and bilateral basis while augmenting its working capital and trade-financing book from existing and new customers.

As a part of its diversification strategy and conscious attempt to disperse the portfolio from real estate concentration, Wholesale Banking Division (WBD) extended financing of creditworthy local corporates and multinational entities under its clean lending scheme on a selective basis, governed by the strictest credit underwriting guidelines, processes, policies and UAE CB regulations.

In 2022, WBD advanced a few high-quality real estate businesses with steady returns. With its pragmatic approach of portfolio switch, there is a temporary contraction in the real estate book; nevertheless, this initiative enabled WBD to comply with its regulatory requirements.

At the end of 2022, Wholesale Banking Division (WBD) can confirm a sizable quantum of approved and un-disbursed pipeline being added to its portfolio with the tangible realization of benefits envisaged from early Q1-23 onwards.

In the SME segment, National bank of Umm Al Qaiwain (NBQ) is fostering a great partnership with Emirates Development Bank (EDB); thereby committing to provide responsible financing assistance to the SME sector, which is crucial for the economy. However, given the inflationary pressures, a cautious outlook is maintained for SME businesses.

Wholesale Banking Division (WBD) is also embarking on various digital initiatives to support business platforms and improve overall customer experience to reduce its cost of funding along with improved service quality. The bank implemented a dedicated Trade Finance Desk to ensure timely and quality customer service and focus on improving its fee-based income.

WBD envisages healthy growth in its portfolio for the upcoming years in the light of fast-growing GDP, positive climate, and investor confidence, notwithstanding that WBD acknowledges the key challenge of maintaining a steady Net Interest Margin (NIM) owing to rising benchmark interest rates.

Retail Banking Division

Retail Banking Division provides individual customers with a wide range of options, offering enhanced products and services at competitive pricing. During the period under review, the bank modernized its branches to provide better facilities and service experience for its customers. This is in addition to digital banking, such as mobile and online banking services. The bank also added ATMs and CCDMs to its network of self-service teller machines allowing customers to carry out their banking requirements anytime and anywhere. The bank has made special efforts and all precautionary actions to follow UAE Government regulations to keep its customers and staff during the pandemic.

Considering the prevailing market conditions, NBQ continued to be prudent in assessing customer requests for loans and exercising caution and care across all segments of customers. Profitability of retail asset products was a key focus area while considering lending proposals for long-term sustainability. Furthermore, the bank continued to comply with CBUAE regulations while catering smoothly to customer needs.

Under the Islamic Banking front, the bank has set a limit for creating the Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR). PER and IRR will not be applied once the reserve exceeds the limit.

Information Technology and Operation

Year 2022 was significant for the technology enhancements and transformations. NBQ continued its focus on updating and upgrading applications and platforms to ensure the latest features, availability, performance, and compliance. The bank went live with Apple Pay to enable easy and secure payments to all NBQ customers. NBQ has gone live with various enhancements to the digital channel offerings, including mobile banking and Interactive Voice Response (IVR).

The bank also invested significantly in the infrastructure to enable seamless and secured internal integration with external partners like Apple. This included implementing industry-leading infrastructure solutions from leading vendors for internal and external infrastructure management.

During 2022, the bank completed the upgrade and updates of various business applications and achieved significant progress concerning the overall compliance posture of the organization by successfully upgrading Anti Money Laundering application along with necessary interfaces, which facilitated enhanced compliance and monitoring capabilities.

The bank also completed various initiatives to achieve the Consumer Protection Regulations requirements and upgraded the SWIFT application to a higher version with improved technology standards. Significant achievements include recertifying PCI DSS for 2022 and implementing a state-of-the-art solution to our technology platform, which provide extreme flexibility, scalability, high performance, and availability. The bank has also invested in upgrading data security solutions to protect the bank from ransomware attacks and ensure our services to all internal and external customers through proactive monitoring and support services.

Human Resources

NBQ undertakes strategic initiatives to manage operations and mitigate risks and industry challenges, focusing on improving performance and profitability. The bank conducts detailed evaluations of staff requirements to utilize and optimize human resources for strategic and operational requirements, which facilitate the bank, to reward and retain talented people to improve operational efficiency and performance.

The bank maintains a high ratio of UAE nationals in its workforce and complies with the regulator's requirements to empower them in leadership and decision-making roles. Constant reviews of the bank's internal policies and strategic vision are undertaken to maintain a motivated UAE national workforce.

Human Resources and Emiratization Department values training, talent identification, mentoring, career planning, and succession planning as key objectives to motivate the workforce and retain and attract diverse talent. Retention of staff members and succession planning of key positions are being handled with Emiratization as a main focus to maintain the regulatory thresholds and maintain operations in a smooth, robust, and efficient manner.

Corporate Governance

NBQ believes in maintaining good corporate governance, risk management principles, internal control systems, and ethical standards commensurate with good governance industry practices, vision, and the bank's mission.

In line with regulations and standards on corporate governance published in 2019 by the CBUAE and Abu Dhabi Securities (ADX), the NBQ's Board of Directors has revised its Board Charter and approved a cyclical three-year implementation plan to enhance its current corporate governance framework.

The bank has taken all measures to enhance the concepts and policies related to internal controls, transparency, disclosures, insider trading, conflict of interest management, related party transactions and Sharia governance framework, and other corporate governance requirements.

Transparency and disclosure requirements are vital factors the Board considers in its actions. They are fundamental to the compliance of governance practices and communicated with the senior management via appropriate communication forums and by approving the relevant charters.

Governance Committees

Board Meetings are conducted as per the Board Charter, Memorandum, Articles of Association, and Federal and Company Law provisions. A minimum of six board meetings are held yearly in line with requirements.

Board decides the risk profile appropriate to the bank's growth strategy. It approves risk management strategies, policies, standards, and critical operational limits and delegates risk and governance-related responsibilities to its Board Level committees, viz., Executive Committee, Credit Committee, Audit Committee, Risk Committee, and Nominations Remunerations Committee. These committees discharge their duties based on the relevant charters approved by the Board.

Audit committee handles issues related to internal control and internal audit issues and concerns. It meets periodically with an agenda and for critical items. Membership includes three independent and Non-Executive Directors and the Management team; which includes Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Head of Risk, and Head of Compliance as invitees.

Risk Committee ensures the effectiveness of the risk management processes and oversees the functions of Risk Departments. It meets periodically, and the membership includes three Independent Non-Executive Directors and the management team, which includes Chief Executive Officer, Chief Financial Officer, Head of Risk, and Head of Compliance as invitees.

Nomination and Remuneration Committee has been delegated to handle all the functions related to Board Nominations, their remuneration, and fixing remunerations of Senior Management staff and other Human Resources-related strategic decisions. This committee comprises of Vice-Chairman, two Directors, and the representatives of Senior Management, constitute the members.

Executive Committee handles all the strategic and operational matters. This committee meets regularly, and decisions are taken which are beyond the powers of the Senior Management. The meetings are attended by the Vice- Chairman, and other Two Board members, Chief Executive Officer, and the relevant Senior Management team.

Credit-related committees are framed to approve credit facilities on wholesale and retail based on the approval limits set against each committee.

Credit Committee comprises of three Bank Directors, and meetings are attended by the CEO, Head of Risk, and representatives from the Credit Approval Department and Wholesale Banking Division. Credit Sub Committe constitutes from the Vice-Chairman, and other Two Board members, Chief Executive Officer, and other Senior Management Members and representatives from Wholesale Banking Division.

NBQ has an efficient team of Senior Management officials who are experienced and qualified in discharging key management functions. They manage the bank's affairs professionally while managing internal control, compliance, and governance with a risk management focus. Board, through its committees, directs the Senior Management Team to apply due diligence and caution to protect the interests of the bank and its shareholders.

The bank has different management committees to handle its functions under the chairmanship of the Chief Executive Officer or Chief Financial Officer. These include:

- Asset Liability Committee
- Compliance Committee
- Pre-Audit Committee
- IT Steering Committee
- Human Resources Committee
- Management Recovery committee
- Project Management Office (PMO) Committee
- Remediation Committee

<u>Directors Remuneration</u>

Each year, the Directors' remuneration is approved at the Annual General Meeting, paid after the year's close, and disclosed in the financial statements. Director's remuneration is proposed by the Nominations and Remunerations Committee.

<u>Information Security Framework</u>

NBQ emphasizes its information security by adhering to various national and international compliance standards and following Information security best practices. Information assurance of the bank is ensured by implementing controls based on UAE Information Assurance Standards (UAE IA). The bank is fully compliant with PCI DSS and SWIFT CSP standards. High priority is given for implementing security advisories and recommendations provided by the CBUAE to ensure that organization's data is safe. The bank uses sophisticated security and auditing tools, updated policies, and processes to prevent, detect and mitigate threats to information assets.

Internal Control Framework

The internal Audit Control Department (IACD) is the fourth line of defense after Front Offices, Risk Management, and Operational Management/Compliance functions.

Internal Auditing and Internal Control is an independent, objective assurance and consulting activity designed to add value and improve the bank's operations. It helps the bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and corporate governance.

Its objective is to help management with an analysis, recommendations, and relevant comments concerning any phase of the business activity that will be useful in running the business efficiently.

IACD is considered a valuable resource to Executive Management and the Board of Directors (BOD) in accomplishing overall goals and objectives for strengthening internal control and organizational governance.

IACD conducts periodic reviews and assesses the effectiveness of internal controls and management of risk in all areas covered by the audits by:

- Evaluating emerging technologies
- Analyzing opportunities
- Examining global issues
- Assessing risks, controls, ethics quality, and efficiency.
- Ensure that controls are adequate to mitigate unforeseen risks and evaluate the bank's internal controls.
- Evaluating process performance identifying deviations from management Key Performance Indicators, and recommending process and control improvements to achieve organizational goals.
- Assessing business requirements and objectives.
- Evaluating evidence in connection with any business issues.
- Review revenue Management and Recognition
- Reviewing procurement of goods and services inventory management and supplier engagement logistics

IACD provides Management and BOD assurance that:

a) financial and operational information is reliable, accurate, and timely.
b) compliance with applicable laws, regulations, internal policies, and procedures.
c) operations and programs are effective and efficient, and assets are safeguarded
d) risks are identified; appropriate risk responses are selected, communicated, and managed

e) action plans for rectification of identified issues are in place.

IACD adopted the following steps while performing all types of audits and checks:

a) Risk identification, b) Risk assessment, c) Risk prioritization, and d) Response planning and monitoring.

Loss frequency or probability and severity are two factors used to assess risk exposure.

IACD is a continuous independent operational activity covering the five components of the internal controls system. These five factors are Control environment, Risk assessment, Control activities, Information & Communication, and Monitoring.

IACD's scope does not end with the delivery of the findings report. Any critical observations are escalated to the Management and Board level Audit Committee for further action. The Management team aims for continuous improvement, with the internal audit function being the basis against which these objectives can be measured.

External Auditors

Ernst and Young, Middle East, was appointed as the External Auditor of the NBQ group for 2022 at the Annual General Meeting. The external auditor's appointment is made per the Article of Association.

Risk Management

In line with best practices, NBQ follows a well-defined organizational structure with Relationship Business Units as the first line of defense, Centralized Approval and Credit Risk Units as the second line of defense, and Credit Administration and Operations unit as the back office. These functions are segregated with clear reporting lines, providing a maximum level of risk assurance and management oversight to credit functions. The bank has well-laid-out credit risk policies and risk acceptance norms, which are followed at all levels. Risk policy manuals are updated continuously as per regulatory and emerging business requirements. The bank has implemented Moody's Credit Rating system for wholesale and SME lending. Acquisition of loan origination software is in process. The bank is in the process of acquiring a solution for the automation of Capital Adequacy Ratio computations and capturing Pillar 2 risks.

Risk Containment Unit will track early warning signals and independent physical inspection of projects as part of proactive credit monitoring. Management of stressed accounts and non-performing loans are centralized. Exposure monitoring, including concentration levels at single obligor and sectoral levels, are monitored by Portfolio Management Unit. In addition, to ensure Corporate Governance, Risk Function reports to Board Risk Committee.

Credit Risk

NBQ assumes credit risk as part of its lending operations, which is identified as the risk that the counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances due from banks and investment securities measured at amortized cost. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees, and undrawn loan commitments. Credit risk management and controls are centralized in the Credit Risk Department with the following objectives:

- To measure, monitor and mitigate risks at the micro and macro levels.
- To facilitate building and sustaining a high-quality credit portfolio and minimize losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units, viz., Portfolio and Rating unit, Remedial Unit, and Risk Containment Unit. Internal risk rating systems are implemented to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk containment units prevent the accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures, and negotiating compromise proposals, wherever required.

Market Risk

Market risk for the Group refers to the potential losses resulting from changes in interest rates, foreign currency exchange rates, and prices of securities because of which the value of its on and/or off-balance sheet positions are adversely affected. Thus, the volatility in the market level of interest rates, foreign exchange rates, and investment prices exposes the Group's earnings and capital to risk.

Market Risk department of the Group presents these risks to the Assets and Liability Committee (ALCO) regularly based on stipulated norms for Asset Liability Management, Interest rates, Forex, and Investments. ALCO committee takes corrective measures per the Group's internal market risk policies and strategic business directions.

Liquidity risk is the current and prospective risk that the Group will be unable to meet its current or future obligations as and when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause specific funding source to dry up immediately. To guard against this risk, management continuously diversify funding sources and manage assets with liquidity in mind. Day-to-day funds management is done at Treasury to maintain a good position of liquid assets. Liquidity position is monitored and reported to top management daily. There are policies to measure and manage liquidity risk and monitor gap limits for its structural liquidity position regularly. The bank also monitors Eligible Liquid Assets Ratio (ELAR) and Advances to Stable Resources Ratio (ASRR) in line with UAE Central Banks' regulations for compliance with Basel III requirements.

Bank's ability to meet its obligations and fund itself in a crisis scenario is critical, and accordingly, liquidity stress tests are conducted under different scenarios at monthly intervals to assess the impact on liquidity to withstand stressed conditions. The bank has also implemented the Contingency Funding Plan (CFP) to manage liquidity in critical stress situations.

Interest Rate Risk

Interest rate risk is managed through gap analysis. Tolerance limits have been fixed for impact on Net Interest Income (NII) due to adverse changes in interest rates. Economic Value of Equity (EVE) analysis is based on modified duration to measure the impact of interest rate changes on a bank's equity. Interest rate risk in the banking book (IRRBB) is also assessed and monitored by ALCO on a monthly basis.

Bank also undertakes Interest Rate Sensitivity analysis based on its internal scenarios and its impact on NII monthly.

Basel Implementation

NBQ adheres to the CBUAE's Basel III compliance implementation guidelines, including the annual submission of the Internal Capital Adequacy Assessment Process (ICAAP) report. The bank also complies with the CBUAE norms for the standardized approach to the computation of capital adequacy ratios.

Stress tests are carried out to assess credit, liquidity, and interest rate risks in the banking book and equity price risks. Last year, test results revealed that the bank is comfortably placed in line with the risk profile, and there is a substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks.

Operations Risk

Operations Risk is "the risk of loss resulting from inadequate or failed internal processes, people and systems or external events." Operational Risk is inherent in all business activities, and management of this risk is vital to the bank's strategic objectives.

The bank has a comprehensive policy framework for managing operations through monitoring, assessing, evaluating, controlling, and mitigating risks arising from regular banking operations. This framework is enhanced by substantial compliance, monitoring, and governance, which includes active participation of Board of Directors, Executive Management, and business line management in the risk management process.

Key controls and risk management strategies are as follows:

- implementation of manuals, processes, and controls to prevent, detect and mitigate specific operational risks exposed by the bank
- regular Risk and Control Self-Assessment (RCSA) to assess key risks and all business units and departments.
- incident management processes to identify, assess, record, report, and manage actual operational and compliance events that have occurred through failed processes or events

- management processes to identify, evaluate, record, report, and manage weaknesses or gaps in controls and to provide information on controls to new processes or services
- risks in process changes are assessed to effectively understand and manage risks from changes to business through automation projects or digital initiatives

The bank has set up a Disaster Recovery (DR) site to ensure that its regular functions are not disrupted during a crisis. DR site is located away from the main processing center. A well-documented business continuity plan with clearly defined recovery procedures and preventive and corrective measures are in place.

The bank has set up Fraud Monitoring Unit to reinforce its oversight of fraud attempts. Further, it is onboarding an enterprise-wide fraud monitoring system to prevent fraud incidents proactively.

The bank maintains adequate insurance coverage for operational losses, which includes unexpected events such as fraud and dishonest actions of the insiders. Focus is also provided to formulate business continuity contingency plans utilizing offsite storage and backup systems. The regulatory risk capital charge concerning operational risk is computed using a basic indicator approach. Operations Risk streamlined processes and improved the turnaround time using the suggestions initiated by business focus groups, business champions, and the internal audit team.

Community Relations

NBQ has been consistently supporting and participating in social welfare measures in the emirate and taking valuable initiatives from a corporate social responsibility (CSR) perspective as well, in addition to the bank's sustainability agenda. It also provided valuable support to charitable, educational, social, sports, and other recreational initiatives undertaken by Government and socio-cultural organizations.

Sustainability

On sustainability, the bank has initiated environmental, social, and governance steps to maintain proper operational standards in the industry and meet the global standards and UAE vision. Board and Senior Management take sustainability measures as a key sustainability objective, and proper disclosures of the initiatives will be presented in a separate report.

Conclusion

Board of Directors and Senior Management appreciate and thank our shareholders for their continued support and backing, our customers for their continued support, trust, and loyalty shown through their business relationships, and finally, the Management Team and all staff members for their continued contribution, dedication, loyalty, and commitment. The bank also appreciates the guidance of the Central Bank of the UAE in managing our affairs and framing our strategies.

NATIONAL BANK OF UMM AL-QAIWAIN (PSC) AND SUBSIDIARY

Consolidated financial statements and independent auditor's report for the year ended 31 December 2022

NATIONAL BANK OF UMM AL-QAIWAIN (PSC) AND SUBSIDIARY

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بنك أم القيوين
NBQ

CHAIRMAN'S REPORT

On behalf of the Board of Directors, I am pleased to welcome everyone to the 40th Annual General Meeting of the bank and present the annual report for the year 2022. With the aim to improve customers' convenience and enhance competitive strength in the UAE Banking Sector, NBQ has always pursued various initiatives to boost its operational efficiency.

This year, the bank has garnered a net profit of AED 364.52 million, which is 38% more than the net profit clocked last year. Net interest income for the full year stood at AED 398 million, a 44% increase over the previous year, while operating income grew 48% to AED 380 million. Total assets reached AED 13.61 billion, gross Loans and advances were at AED 6.58 billion, while customer deposits stood at AED 7.86 billion. Reflecting prudent management and effective monitoring of our loans and advances portfolio, the Bank holds collateral and specific provision to the tune of 183.10% of the non-performing loans. Further, the Bank has consistently maintained a high level of liquidity as in the past and the liquidity ratio as of 31 December 2022 stood at 50.06%, while the cost-to-income ratio is 28.93% compared to 34.81% in 2021, improved 588 basis points on year on year, which reflects the Bank's operational efficiencies and disciplined cost management.

As a testament to the bank's financial capability, lending and investment capacity as of 31 December 2022, the shareholders' equity amounted to AED 5.32 billion, with the bank continuing to maintain one of the highest capital adequacy ratios in the banking industry, which stands at 44.27%. This is significantly a higher figure as compared to the minimum levels prescribed by the Central Bank of the UAE. Moreover, the Tier 1 ratio stands at 43.13%, which is also substantially higher than the prescribed limits stipulated by the regulatory authorities.

During the year 2022, share capital has been increased from AED 1,848 million to AED 2,000 million by way of issuing 8.23% of the share capital as bonus shares amounting to AED 152 million from the bank's retained earnings.

We are pleased to propose a cash dividend of 10% of the share capital for the year ended 31 December 2022 has been approved by the Central Bank of the U.A.E.

Due to the robust performance of non-oil sectors including tourism, hospitality, real estate, transportation and manufacturing, UAE's economy is expected to grow by 7.6% during the year ended 2022 as per CBUAE's latest estimates. Similarly, the Central Bank expects non-oil GDP to grow by 6.1% in 2022 while the oil GDP is expected to grow by 11% in 2022. The International Monetary Fund (IMF) as well, has projected the UAE's economy to grow by over 6.0% in 2022 on account of increased foreign investment inflow into the country after the government successfully handled the pandemic, enhanced domestic activity, made sweeping visa reforms, and allowed 100% foreign ownership of businesses. The visa reforms and the move to allow full foreign ownership in the businesses are expected to show a positive impact on the economy in the short to medium term.

Crude oil prices rose significantly in the first half of 2022 due to Russia's invasion of Ukraine coupled with the decrease in global crude oil inventory but declined in the second half of the year as concerns about a possible economic recession reduced demand while supply from the US and International Strategic Petroleum reserve increased. However, it managed to average USD 100/- per barrel in 2022. In 2023, oil prices are likely to average around USD 89/- per barrel as the world is expected to slip into recession due to high inflation and rising interest rates, which in turn will dampen the oil demand. Simultaneously surging COVID-19 cases in China have been depressing the outlook for oil demand growth in 2023. OPEC+ is expected to increase oil production in the event of a severe drop in production by Russia due to western sanctions on Russian oil, which will favorably affect the UAE.

Stock markets in GCC registered decent growth in 2022, with the ADX registering a 20.3% gain y-o-y while DFM gained 4.4% during the year. New listings, primarily in UAE and Saudi Arabia, have seen

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من قبل مصرف الإمارات العربية المتحدة المركزي
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strong investor interest fetching USD 18 billion during 2022 while during 2023, over 11 companies are lined up for listing on ADX, making the Middle East a bright spot in the IPO market.

Additionally, the stock markets are expected to see an upside in 2023 due to expected better corporate earnings growth.

Also, the Interest rate increase is likely to continue in 2023, although at a reduced pace as compared to 2022, if inflation remains above acceptable levels. GCC Banks are expected to post robust results during 2022 due to potent economic activity, higher interest rates and elevated oil prices. However, in 2023, the expected slowdown of the global economy could affect the region through lower oil prices. Going forward, as local and the global liquidity becomes less available, banks may face constraints in funding their growth strategies. However, the banking system in UAE, particularly the NBQ remains sufficiently well-heeled to withstand any such liquidity crunch. This resilience stems from the fact that high governance standards and the adoption of a clear strategy to enhance shareholder returns by grabbing growth opportunities in various business segments have provided positive results to the bank during the year.

Given this opportune moment, as an organisation, we are inspired by the vision and leadership of the United Arab Emirates in its commitment to an inclusive, net-zero economy by 2050. UAE is backing this ambition with significant investments in clean and renewable energy and by focusing on tourism as part of their non-oil economic objectives. As we enter our next phase of growth, we see sustainability as an opportunity to support the national economic agenda and meet the evolving needs of our customers, while effectively managing risk to ensure the long-term success of the bank. To support our sustainability initiatives, we have created a sustainability work team to measure performance periodically and prepare disclosures that meet industry and global sustainability standards.

On behalf of the Board of Directors, we would like to express our gratitude to His Highness Sheikh Saud Bin Rashid Al Mualla – Ruler of Umm Al-Qaiwain and Member of the Supreme Council of the United Arab Emirates – for the continued support for the development of the bank and in framing our strategies.

We would also like to state our sincere and whole-hearted appreciation for the ongoing initiatives and support provided by the Central Bank of the UAE to regulate the country's financial sector and for their help and continuing guidance to the bank during this year.

Similarly, we convey our sincere appreciation and gratitude to our shareholders, customers and correspondent banks for achieving our strategic objectives and maintaining continued success in our operations. We have a good team of talented management officials and staff members who are committed and remain loyal to the bank, and we value their contribution to the continued successful operations of the bank.

RASHID BIN SAUD AL MUALLA
Chairman

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF UMM AL-QAIWAIN (PSC)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis of opinion

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

Key audit matter

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF UMM AL-QAIWAIN (PSC) (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses ("ECL") for loans and advances and Islamic financing receivables *Refer to note 6 of the consolidated financial statements.* The balance of loss allowances on loans and advances and Islamic financing receivables represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9"). Management first assesses whether the credit risk of loans and advances and Islamic financing receivables to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL. For loans and advances and Islamic financing receivables classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default discount rates and macro economic inputs. For loans and advances and Islamic financing receivables in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans. Management has also applied significant level of judgement in areas noted above in determining the impact of economic volatility on the allowances for credit losses by considering the following: 1. forward looking information, including variables used in macroeconomic scenarios and their associated weightings, 2. Stress in specific sectors and industries	We have obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Group's internal rating model, the Group's credit impairment provision policy and the ECL modelling methodology. We have performed process walkthroughs to identify the controls over ECL process. We have tested design and operational effectiveness of the following internal controls relating to the measurement of ECL: - Review and approval of classification of loans and advances and Islamic financing receivables facilities. - The management is regular monitoring of: i) staging and ECL for loans and advances and Islamic financing receivables. ii) identification of loans displaying indicators of impairment (including more than 90 days past due) under stage 3. iii) Macroeconomic variables and forecast iv) performance of ECL models - The review and approval of management overlays and the governance process around such overlays. - The model validation function. We have performed the following substantive audit procedures: - Reviewed the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates and discount rate.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF UMM AL-QAIWAIN (PSC) (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
We considered ECL for loans and advances and Islamic financing receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of loans and advances and Islamic financing receivables into stages 1,2 or 3, assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc. These judgments have a material impact on the consolidated financial statements of the Group.	- For selected samples, we performed procedures to determine whether significant increase in credit risk have been correctly identified. - For forward-looking measurements, reviewed management's selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis. - We have reviewed the impact on expected credit losses on account of economic volatility with specific focus on reassessment of macroeconomic weights, impact of financial stress on various industries. - For selected samples, we examined key data inputs into the ECL models. - We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy. - We assessed the appropriateness of disclosures in the consolidated financial statements against the requirements of IFRS.

Other information

Management is responsible for the other information. The other information consists of the information comprises the Chairman report, which we obtained prior to the date of this auditor's report and the Group's Annual Report 2022, which is which is expected to be made available to us after the auditor's report date.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF UMM AL-QAIWAIN (PSC) (continued)

Report on the audit of the consolidated financial statements (continued)

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and of the UAE Federal Decree Law No. (32) of 2021, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Report on the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF UMM AL-QAIWAIN (PSC) (continued)

Report on other legal and regulatory requirements

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

- the Group has maintained proper books of account;
- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Decree Law No. (32) of 2021;
- the financial information included in the Directors' report is consistent with the books of account and records of the Group;
- investments in shares and stocks during the year ended 31 December 2022 are disclosed in note 7 to the consolidated financial statements;
- note 27 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank 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 of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2022; and
- note 38 reflects the social contributions made during the year.

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

For Ernst & Young

Signed by:
Anthony O'Sullivan
Partner
Registration No. 687

07 February 2023

Sharjah, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

	Notes	2022 AED '000	2021 AED '000
Assets			
Cash and balances with the U.A.E. Central Bank	4	**1,724,400**	1,451,384
Due from other banks	5	**3,748,482**	3,422,563
Loans and advances and Islamic financing receivables	6	**6,246,243**	6,588,554
Investment securities	7	**1,337,332**	1,132,621
Customers' acceptances		**235,009**	217,528
Investment in an associate	8	**705**	744
Property and equipment	9	**73,826**	85,528
Other assets	10	**239,125**	243,103
Total assets		**13,605,122**	13,142,025
Liabilities			
Due to other banks	11	**8**	-
Customers' deposits and Islamic customer deposits	12	**7,861,976**	7,700,120
Customers' acceptances		**235,009**	217,528
Other liabilities	13	**181,109**	173,642
Total liabilities		**8,278,102**	8,091,290
Shareholders' equity			
Share capital	14	**2,000,000**	1,848,000
Statutory reserve	15	**1,019,266**	1,019,266
General reserve		**6,440**	6,440
Impairment reserve -general	16	**34,586**	35,911
Cumulative change in fair values		**383,710**	372,617
Retained earnings		**1,883,018**	1,768,501
Total shareholders' equity		**5,327,020**	5,050,735
Total liabilities and shareholders' equity		**13,605,122**	13,142,025

Rashid Bin Saud Al Mualla Chairman	Nasser Rashid AbdulAziz AlMoalla Vice Chairman and Chairman of Executive Committee	Adnan Al Awadhi Chief Executive Officer

The attached notes 1 to 41 form an integral part of these consolidated financial statements.
The independent auditor's report on consolidated financial statements is set out on pages 03 - 09.

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 AED '000	2021 AED '000
Interest income	18	**407,841**	298,653
Income from Islamic financing products		**54,634**	28,300
Total interest income and income from Islamic financing products		**462,475**	326,953
Interest expense	18	**(63,721)**	(49,476)
Distribution to depositors – Islamic products		**(289)**	(325)
Net interest income and income from Islamic products net of distribution to depositors		**398,465**	277,152
Net fees and commission income	19	**36,173**	43,782
Other operating income	20	**61,198**	37,838
Gross income		**495,836**	358,772
Operating expenses	21	**(154,773)**	(136,769)
Investment gains	22	**39,164**	34,104
Operating income		**380,227**	256,107
Share of gain/(loss) from an associate	8	**11**	(197)
Profit for the year before impairment		**380,238**	255,910
Net impairment (losses)/reversal	24	**(15,722)**	8,258
Profit for the year		**364,516**	264,168
Basic and diluted earnings per share (AED)	25	**0.19**	0.14

The attached notes 1 to 41 form an integral part of these consolidated financial statements.
The independent auditor's report on consolidated financial statements is set out on pages 03 - 09.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 AED '000	2021 AED '000
Profit for the year		**364,516**	264,168
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Net fair value gain on investment securities carried at FVTOCI - equity	7	**59,609**	236,985
Other comprehensive income for the year		**59,609**	236,985
Total comprehensive income for the year		**424,125**	501,153

The attached notes 1 to 41 form an integral part of these consolidated financial statements.
The independent auditor's report on consolidated financial statements is set out on pages 03 - 09.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Impairment reserve AED'000	Investments cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2020	1,848,000	1,019,266	6,440	-	135,632	1,688,084	4,697,422
Profit for the year	-	-	-	-	-	264,168	264,168
Other comprehensive income for the year	-	-	-	-	236,985	-	236,985
Total comprehensive income for the year	-	-	-	-	236,985	264,168	501,153
Provision under U.A.E Central Bank requirement over IFRS 9 requirement (Note 16)	-	-	-	35,911	-	(35,911)	-
Dividends paid (Note 26)	-	-	-	-	-	(147,840)	(147,840)
Balance at 31 December 2021	1,848,000	1,019,266	6,440	35,911	372,617	1,768,501	5,050,735
Profit for the year						364,516	364,516
Other comprehensive income for the year	-	-	-	-	59,609	-	59,609
Total comprehensive income for the year	-	-	-	-	59,609	364,516	424,125
Excess provision under U.A.E Central Bank requirement over IFRS 9 requirement	-	-	-	(1,325)	-	1,325	-
Sale of FVOCI equity	-	-	-	-	(48,516)	48,516	-
Dividends paid (Note 26)						(147,840)	(147,840)
Bonus shares issued (Note 14)	152,000	-	-	-	-	(152,000)	-
Balance at 31 December 2022	**2,000,000**	**1,019,266**	**6,440**	**34,586**	**383,710**	**1,883,018**	**5,327,020**

The attached notes 1 to 41 form an integral part of these consolidated financial statements. The independent auditor's report on consolidated financial statements is set out on pages 03-09.

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	**2022 AED '000**	2021 AED '000
Cash flows from operating activities			
Profit for the year		**364,516**	264,168
Adjustments for:			
Provision / (Reversal) for expected credit losses		**14,680**	(11,996)
Depreciation of property and equipment		**16,311**	15,785
Depreciation of right of use asset		**1,729**	1,729
Provision for Impairment of inventory	24	**1,043**	3,738
Provision for employee end of service benefits	13.1	**2,484**	1,397
(Increase)/Decrease in fair value of investment in securities		**(4,480)**	1,361
Discount amortised on investment securities	7	**1,682**	892
Dividend income	22	**(36,368)**	(36,358)
(Gain) /Loss on disposal of property and equipment		**(9)**	25
Share of (profit)/ loss from an associate	8	**(11)**	197
Finance cost on lease liability		**100**	137
Operating cash flows before changes in operating assets and liabilities		**361,677**	241,075
Increase in certificate of deposits with original maturity greater than 3 months		**(268,722)**	(427,965)
Decrease/(Increase) in statutory deposit with U.A.E. Central Bank		**43,203**	(33,721)
Decrease in loans and advances		**320,226**	1,065,357
Payment of employee end of service benefits	13.1	**(2,039)**	(3,397)
Decrease in other assets		**2,936**	4,594
Increase/(Decrease) in customers' deposits		**161,856**	(524,738)
Increase/(Decrease) in other liabilities		**12,590**	(87,702)
Net cash generated from operating activities		**631,727**	233,503
Cash flows from investing activities			
Purchase of property and equipment		**(6,352)**	(10,078)
Proceeds from disposal of property and equipment		**19**	437
Purchase of investment securities	7	**(264,781)**	(121,964)
Proceeds from maturity and disposal of investment securities	7	**124,269**	165,451
Dividend received from investment securities	22	**36,368**	36,358
Dividend received from investment in an associate	8	**50**	49
Net cash (used in)/generated from investing activities		**(110,427)**	70,253
Cash flows from financing activities			
Dividends paid		**(147,840)**	(147,840)
Lease payments		**(1,646)**	(1,964)
Net cash flows used in financing activities		**(149,486)**	(149,804)
Net increase in cash and cash equivalents		**371,814**	153,952
Cash and cash equivalents at the beginning of the year	28	**3,628,046**	3,474,094
Cash and cash equivalents at the end of the year	28	**3,999,860**	3,628,046

The attached notes 1 to 41 form an integral part of these consolidated financial statements.
The independent auditor's report on consolidated financial statements is set out on pages 03 - 09.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

1. General information

National Bank of Umm Al-Qaiwain (PSC) (the "Bank") is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain ("UAQ") in the United Arab Emirates ("U.A.E.") by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982.

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

The Group comprises National Bank of Umm Al-Qaiwain (PSC), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.-SO), Dubai (see Note 3.3). The address of the Bank's registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Group is engaged in providing retail and corporate banking services through a network of 11 branches in U.A.E.

The Group carries out Islamic banking operations through Islamic banking window established in 2005 across all its branch network.
During the year, the Bank has decided to run down the portfolio of Islamic window and to continue with existing Islamic portfolio only. As per the run down plan approved by the Internal Shari'ah Supervision Committee, this will be completed by year 2025.

2. Application of new and revised International Financial Reporting Standards ("IFRSs")

2.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2022

i. Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Bank applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Bank as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

ii. IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement:

In accordance with the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Bank as there were no modifications of the Bank's financial instruments during the period

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.2 Standards, amendments and interpretations that are not yet effective for the Bank's accounting period beginning on 1 January 2022

i. Definition of Accounting Estimates - Amendments to IAS 8.

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Bank.

ii. Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

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 Bank's financial year beginning on 01 January 2022 that would be expected to have a material impact on the Bank's consolidated financial statements.

3. Significant accounting policies

Statement of compliance

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

Along with these consolidated financial statements, the Group has presented Basel III disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel III 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 has provided full comparative information.

3. Significant accounting policies (continued)

3.1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Arab Emirates Dirhams (AED) (in thousands, except where noted), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

The Group presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

3.2 Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) and Subsidiary (the "Group") incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary).

Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

3. Significant accounting policies (continued)

3.2 Basis of consolidation (continued)

Subsidiary:
Details of the Bank's subsidiary as at 31 December 2022 is as follows:

Name of subsidiary	Proportion of ownership interest	Country of Incorporation	Principal activity
Twin Towns Marketing Management (L.L.C.-SO)	100%	U.A.E.	Marketing management

3.3 Investment in an associate

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of income in the period in which the investment is acquired.

The requirements of IFRS are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Significant accounting policies (continued)

3.4 Financial Instruments

Classification of financial assets and financial liabilities

Financial assets
On initial recognition, a financial asset is classified and measured: at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) or Fair Value Through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities
In both the current period and prior period, financial liabilities are classified as other financial liabilities and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

Derecognition of financial liabilities
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Business model assessment
The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

Reclassifications
If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current period and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Derecognition
Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss account on derecognition of such securities.

Measurement of financial assets and financial liabilities

Investment securities
The investment securities' caption in the consolidated statement of financial position includes:

- Quoted debt instruments measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss; and
- Equity securities designated as at FVTOCI.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Financial liabilities
All financial liabilities are measured at amortised cost unless designated at FVTPL.

Impairment

Measurement of ECL
The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Deposits and balances and due from banks;
- Debt investment securities carried at amortised cost;
- Loans and advances to customers;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Impairment (continued)

Measurement of ECL (continued)
A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis (for Wholesale portfolio), or on a collective basis for portfolios of loans that share similar economic risk characteristics (for Retail portfolio). The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

Expected life
For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component;(b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Credit-impaired financial assets
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Impairment (continued)

Credit-impaired financial assets (continued)
It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

Significant increase in credit risk
The Group monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Group monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, financing forward looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Impairment (continued)

Significant increase in credit risk (continued)
The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Group considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal risk grade;
- External credit rating (as far as available);
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the customer;
- Significant changes in the expected performance and behavior of the customer, including changes in the payment status of customers in the Group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Group relies on a broad range of forward looking information as economic inputs along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in Customer PDs models on a timely basis.

However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail financing, when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

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 ▪ DPD 31-90 days	▪ Restructured portfolio ▪ DPD 30-89 days (inclusive)	▪ Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition ▪ Credit rating of Caa1 to Caa3 to be classified as Stage 2
1 » 3 2 » 3	▪ Credit impaired portfolio ▪ DPD greater than 90 days	▪ Credit impaired portfolio ▪ DPD ≥ 90 days	Credit rating of C and below to be classified as Stage 3

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Impairment (continued)

Quantitative factors (continued)

The Stage assessment indicators, as prescribed by the IFRS 9 standards are detailed below. These are indicative and may be considered by the Bank based on maturity of data availability and assessment process.

1. Change in internal credit spread (or risk premium)
2. Actual or expected change in Internal Credit Rating
3. Actual or expected significant change in operating results of borrower
4. Regulatory, economic, or technological environment of the borrower
5. Quality of guarantee
6. Expected change in loan documentation (covenant waiver, collateral top-up, payment holiday etc.)
7. Changes in bank's credit management approach (or appetite) in relation to the financial instrument
8. Significant difference in rates or terms of newly issued similar contracts
9. Actual or expected change in External Credit Rating
10. Existing or forecast adverse changes in business, financial or economic conditions
11. Significant increase in credit risk on other financial instruments of the same borrower
12. Reductions in financial support from parent entity or credit enhancement quality
13. Significant changes in the expected performance and behaviour or borrower or group.

Curing Criteria - upward ECL stage movement

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

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

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

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

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

- An exposure cannot be upgraded from Stage 3 to 1 directly and should be upgraded to Stage 2 after observing a cooling period of 12 months under Stage 3 and thereafter follow the probation period of 12 months in stage 2 before upgrading to Stage 1. So, an account will have 24 months of cooling period from stage 3 to 1.
- Movement from Stage 3 to Stage 2 or Stage 1 is assessed based on reversal of the original conditions that had led to migration to Stage 3, and such improved performance conditions sustaining for the 'Cure Period' of 12 months.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Impairment (continued)

Restructured or Modified financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Write-offs
Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss as “Other income”.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:
- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group’s revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions in the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

3.5 Due from other banks

Amounts due from other banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amounts due from other banks is assessed as outlined in the accounting policy on financial instruments in note 3.4 above.

3. Significant accounting policies (continued)

3.6 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	20
Computer and equipment	1 - 5
Furniture and fixtures	5
Leasehold improvements	3 – 5
Motor vehicles	5

Land is not depreciated, as it is deemed to have an infinite life.
Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the fair value less costs to sell and value in use.

3.7 Inventory

Inventory represents property acquired in settlement of debt, stated at lower of cost or net realisable value. Directly attributable cost incurred in the acquisition of inventory is included as part of the cost of the asset. Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date.

3.8 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Significant accounting policies (continued)

3.9 Due to other banks and customer deposits

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

3.10 Employees' end of service benefits

Pension contributions are made in respect of U.A.E. nationals to the U.A.E. General Pension and Social Security Authority in accordance with the U.A.E. Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-U.A.E. nationals in accordance with the U.A.E. Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

Management measures the employees' end of service benefits payable under the U.A.E. Labour law. Under this method an assessment is made of employee's expected service life with the Group and the expected basic salary at the date of leaving the service.

3.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as it is probable that the Group will be required to settle the obligation, and a reliable estimate of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation. When a provision is measured using the cash flows estimated to settle the present obligations, its amount is the present value of those cash flows (when the effect of the time value of money is material.

When some of all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.12 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

3.13 Foreign currencies

Items included in the consolidated financial statements of the Group are measured in AED which is the functional currency of the primary economic environment in which the Group operates. Foreign currency transactions are translated into AED at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

3.14 Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.

3. Significant accounting policies (continued)

3.15 Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Income from Islamic financing products

The Group's policy for recognition of income from Islamic financing products is described in Note 3.22.

3.16 Fees and commission income

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

- Fee income earned from services that are provided over a certain period of time; and
- Fee income earned from providing transaction services.

The Group earns commission income from issue of documentary credits and letters of guarantee. The commission income is recognised on a straight-line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is affected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

3.17 Rental and dividend income

Rental income is recognised on a straight-line basis over the term of the relevant lease. Dividend income is recognised when the Group's right to receive the payment is established.

3.18 Earnings per share

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

3. Significant accounting policies (continued)

3.19 Acceptances

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

3.20 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the U.A.E. Central Bank.

3.21 Islamic financing products

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.
All Islamic banking products are accounted for in conformity with the accounting policies described below:

Definitions
The following terms are used in Islamic financing:

Murabaha
A sales agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired and the customer will pay the commodity price on an instalment basis over a specific period. The selling price comprises the cost of the commodity and an agreed profit margin.
Mudaraba
A profit sharing agreement between the Group and the customer whereby the customer provides the funds and the Group invests the funds in a specific enterprises or activity and any profits generated are distributed accordingly to the terms and conditions of the profit sharing agreement. The customer bears the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala (Investment agency)
An agreement whereby the customer appoints the Group to invest a certain sum of money according to the terms and conditions of the Wakala in return for a certain fee and any profit exceeding the expected profit. The Group will bear any loss as a result of the misconduct, negligence or violation of the terms and conditions of the Wakala.
Under the Islamic Banking front, the Bank has set up a cap limit for creating the Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR). PER and IRR will not be applied once the reserve amount achieves the limit.

Accounting policy
Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income, if any.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.4). Islamic financing and investing products are written off only when all possible course of action to achieve recovery have proven unsuccessful.

Revenue recognition policy
Income from Islamic financing and investing assets are recognised in the consolidated statement of income using the effective profit method.

Murabaha
Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

3. Significant accounting policies (continued)

3.21 Islamic financing products (continued)

Islamic customers' deposits and distributions to depositors
Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) represents the share of income allocated to depositors of the Group. The distributions are calculated, allocated and distributed according to the Islamic Banking unit's standard procedures and are approved by the Islamic Banking unit's Sharia'a Supervisory Board.

3.22 Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Business model assessment
Classification and measurement of financial assets depends on the results of the solely payments of principal and interest (SPPI) and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk
ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. A significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

Establishing groups of assets with similar credit risk characteristics
When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. product type). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

3. Significant accounting policies (continued)

3.22 Critical accounting estimates and judgements (continued)

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario.
When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default
PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default
LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Models and assumptions used
The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. The level of estimation uncertainty has increased since 31 December 2021 as a result of the economic disruption and consequential impact of the COVID-19 pandemic. This includes significant judgements relating to:

- The selection and weighting of macro-economic scenarios;
- The effect of government and other support measures put in place to mitigate the negative economic impact;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event; and
- Identification and assessment of significant increases in credit risk and impairment especially for customers who have received support under the various government and bank support schemes.

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 (31) of these consolidated financial statements.

3. Significant accounting policies (continued)

3.22 Critical accounting estimates and judgements (continued)

Fair value of financial instruments
The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

Provisions and other contingent liabilities
The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in UAE and in other jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

3.23 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 Executive Committee of the Bank (referred to as the "ExCo") to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.24 Lease

The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

3. Significant accounting policies (continued)

3.24 Lease (continued)

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

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

4. Cash and balances with the U.A.E. Central Bank

	2022	2021
	AED'000	AED'000
Balances with the U.A.E. Central Bank:		
Current account	**31,544**	34,104
Statutory cash reserve deposit	**302,432**	345,635
Monetary Bills	**698,596**	349,957
Overnight deposits	**600,000**	625,000
	1,632,572	1,354,696
Cash in hand	**91,828**	96,688
	1,724,400	1,451,384

The statutory deposit with the U.A.E. Central Bank is not available to finance the day to day operations of the Group.

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5. Due from other banks

	2022 AED'000	2021 AED'000
Term deposits	**2,470,010**	2,642,634
Demand deposits	**90,938**	29,663
Loans to financial institutions	**1,188,639**	752,965
Total due from other banks	**3,749,587**	3,425,262
Provision for expected credit loss	**(1,105)**	(2,699)
Net due from other banks	**3,748,482**	3,422,563

	2022 AED'000	2021 AED'000
Gross amounts due from other banks by geographical area		
Within U.A.E.	**2,396,550**	2,756,497
Within GCC	**312,043**	180,675
Other countries	**1,040,994**	488,090
	3,749,587	3,425,262

	2022 AED'000	2021 AED'000
Gross amounts due from other banks by currency		
AED	**1,111,000**	1,695,000
USD	**2,625,672**	1,723,810
SAR	**397**	140
Others	**12,518**	6,312
	3,749,587	3,425,262

An analysis of due from other banks based on external credit ratings is as follows:

	2022 AED'000	2021 AED'000
AA−	**65,919**	12,501
A+	**5**	150,203
A	**312,314**	1,071,997
A−	**734,600**	467,529
BBB+	**1,367,347**	1,081,280
BBB	**6,560**	2,216
BBB− and below	**1,262,842**	639,536
	3,749,587	3,425,262

5. Due from other banks (continued)

Due from banks stage-wise analysis

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

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Outstanding balance	**3,749,587**	**-**	**-**	**3,749,587**
Provision for expected credit loss	**(1,105)**	**-**	**-**	**(1,105)**
Carrying amount	**3,748,482**	**-**	**-**	**3,748,482**

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Outstanding balance	3,425,262	-	-	3,425,262
Provision for expected credit loss	(2,699)	-	-	(2,699)
Carrying amount	3,422,563	-	-	3,422,563

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

6. Loans and advances and Islamic financing receivables

	2022	2021
	AED'000	AED'000
Loans	**4,966,284**	5,663,834
Overdrafts	**959,543**	853,482
Islamic financing products	**175,641**	195,095
Loans against trust receipts	**210,252**	129,420
Syndicated Loans	**181,814**	-
Other	**86,554**	48,282
Total loans and advances and Islamic financing receivables	**6,580,088**	6,890,113
Provision for expected credit loss	**(333,845)**	(301,559)
Net loans and advances and Islamic financing receivables	**6,246,243**	6,588,554

6. Loans and advances and Islamic financing receivables (continued)

	2022	2021
	AED'000	AED'000
By economic sector		
Wholesale and retail trade	**1,039,454**	876,137
Real estate and construction	**2,502,906**	3,369,736
Personal loans and other	**379,038**	404,080
Manufacturing	**419,617**	411,704
Agriculture and allied activities	**265**	1,175
Transport and communication	**164,384**	164,120
Financial institutions	**631,306**	332,896
Services and other	**1,443,118**	1,330,265
	6,580,088	6,890,113

All loans and advances and Islamic financing receivables are from customers within U.A.E.

Movement in the gross balances of loans and advances and Islamic financing receivables

	Stage 1	***Stage 2***	***Stage 3***	***Total***
	AED'000	***AED'000***	***AED'000***	***AED'000***
Gross carrying amount as at 31 December 2021	**5,874,153**	**424,223**	**591,737**	**6,890,113**
New assets originated or purchased	**1,061,215**	**-**	**-**	**1,061,215**
Assets derecognised or repaid	**(1,352,185)**	**(16,408)**	**34,153**	**(1,334,440)**
Transfer to Stage 1	**31,853**	**(31,853)**	**-**	**-**
Transfer to Stage 2	**(140,502)**	**149,596**	**(9,094)**	**-**
Transfer to Stage 3	**(12,830)**	**(29,846)**	**42,676**	**-**
Write off	**-**	**-**	**(36,800)**	**(36,800)**
As at 31 December 2022	**5,461,704**	**495,712**	**622,672**	**6,580,088**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Gross carrying amount as at 31 December 2020	6,813,529	382,877	795,427	7,991,833
New assets originated or purchased	374,306	364	-	374,670
Assets derecognised or repaid	(1,034,295)	(199,009)	(211,725)	(1,445,029)
Transfer to Stage 1	5,689	(5,689)	-	-
Transfer to Stage 2	(254,256)	260,675	(6,419)	-
Transfer to Stage 3	(30,820)	(14,995)	45,815	-
Write off	-	-	(31,361)	(31,361)
As at 31 December 2021	5,874,153	424,223	591,737	6,890,113

6. Loans and advances and Islamic financing receivables (continued)

Movement in the provision for expected credit loss of loans and advances and Islamic financing receivables:

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
ECL allowances as at 31 December 2021	**79,297**	**36,241**	**186,021**	**301,559**
Net impairment charged during the period	**(36,643)**	**32,071**	**81,450**	**76,878**
Recoveries	-	-	**(7,792)**	**(7,792)**
Transfer to Stage 1	**2,353**	**(2,353)**	-	-
Transfer to Stage 2	**(3,077)**	**3,077**	-	-
Transfer to Stage 3	**(186)**	**(216)**	**402**	-
Written off	-	-	**(36,800)**	**(36,800)**
Closing Balance as at 31 December 2022	**41,744**	**68,820**	**223,281**	**333,845**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
ECL allowances as at 31 December 2020	112,318	39,523	200,336	352,177
Net impairment charged during the period	(28,834)	(6,289)	26,246	(8,877)
Recoveries	-	-	(5,380)	(5,380)
Transfer to Stage 1	223	(223)	-	-
Transfer to Stage 2	(4,028)	4,028	-	-
Transfer to Stage 3	(382)	(798)	1,180	-
Written off	-	-	(36,361)	(36,361)
Closing Balance as at 31 December 2021	79,297	36,241	186,021	301,559

Grading of loans and advances and Islamic financing receivables along with stages:

	31 December 2022			
	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Performing (Grades 1-8)	**5,461,704**	**317,446**	-	**5,779,150**
Performing Watchlist (9-12)	-	**178,266**	-	**178,266**
Sub Standard (Grade 13)	-	-	**120,012**	**120,012**
Doubtful (Grade 14)	-	-	**294,867**	**294,867**
Loss (Grades 15)	-	-	**207,793**	**207,793**
Total gross carrying amount	**5,461,704**	**495,712**	**622,672**	**6,580,088**
Expected credit loss	**(41,744)**	**(68,820)**	**(223,281)**	**(333,845)**
Carrying amount	**5,419,960**	**426,892**	**399,391**	**6,246,243**

6. Loans and advances and Islamic financing receivables (continued)

	31 December 2021			
	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Performing (Grades 1-8)	5,874,153	231,097	-	6,105,250
Performing Watchlist (9-12)	-	193,126	-	193,126
Sub Standard (Grade 13)	-	-	110,608	110,608
Doubtful (Grade 14)	-	-	448,187	448,187
Loss (Grades 15)	-	-	32,942	32,942
Total gross carrying amount	5,874,153	424,223	591,737	6,890,113
Expected credit loss	(79,297)	(36,241)	(186,021)	(301,559)
Carrying amount	5,794,856	387,982	405,716	6,588,554

The non-performing loans as at 31 December 2022 amounted to AED 622.67 million (2021: AED 591.74 million). Provisions for impairment in relation to such loans amounted to AED 223.28 million as at 31 December 2022 (2021: AED 186.02 million) (see Note 31).

7. Investment securities

Investment securities comprise the following:

	***2022* AED'000**	*2021 AED'000*
Securities at FVTPL		
Quoted equity securities	**15,980**	16,366
Discretionary funds managed by third parties – quoted equity securities	**209**	250
	16,189	16,616
Securities at FVTOCI		
Quoted equity securities	**955,192**	996,581
Unquoted equity securities	**1,193**	1,194
	956,385	997,775
Securities at amortised cost		
Quoted debt instruments	**365,193**	120,457
Total investment securities	**1,337,767**	1,134,848
Provision for expected credit loss	**(435)**	(2,227)
Net investment securities	**1,337,332**	1,132,621

7. Investment securities (continued)

Gross investment securities by geographical area

	2022 *AED'000*	*2021* *AED'000*
Within U.A.E.	**1,055,793**	933,928
Within GCC	**249,098**	166,536
Other countries	**32,876**	34,384
	1,337,767	1,134,848

All debt investment are classified as Stage 1 (31 December 2021: Stage 1) with corresponding ECL of AED 0.43 million (31 December 2021: AED 2.23 million).

Quoted debt securities aggregating AED 365.19 million (2021: AED 120.46 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.

	2022 **AED '000**	2021 AED '000
Movement in investment securities:		
Balance at 1 January	**1,134,848**	943,603
Purchase of investment securities	**264,781**	121,964
Disposal and maturity of investment securities	**(124,269)**	(165,451)
Net fair value gain/ (loss) on investment securities at FVTPL	**4,622**	(1,364)
Net discount amortised on investment securities at amortised cost	**(1,682)**	(892)
Foreign exchange revaluation	**(142)**	3
Net fair value gain on investment securities at FVTOCI	**59,609**	236,985
Balance at 31 December	**1,337,767**	1,134,848

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

2022	**Debt securities AED'000**	**Other Equity investments AED'000**	**Total AED'000**
AA	**156,388**	**-**	**156,388**
AA-	**-**	**374,876**	**374,876**
A+	**-**	**29,786**	**29,786**
A	**-**	**222,719**	**222,719**
A-	**-**	**105,321**	**105,321**
BBB+	**-**	**80,112**	**80,112**
BBB	**-**	**11,261**	**11,261**
BBB- and below	**208,805**	**148,499**	**357,304**
Less: Provision for expected credit loss	**(435)**	**-**	**(435)**
	364,758	**972,574**	**1,337,332**

7. Investment securities (continued)

2021	Debt securities AED'000	Other Equity investments AED'000	Total AED'000
AA-	-	457,364	457,364
A+	-	36,119	36,119
A	-	174,972	174,972
A-	-	113,196	113,196
BBB+	-	79,442	79,442
BBB- and below	120,457	153,298	273,755
Less: Provision for expected credit loss	(2,227)	-	(2,227)
	118,230	1,014,391	1,132,621

Debt investments 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, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

	31 December 2022			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Outstanding balance	**365,193**	-	-	**365,193**
Provision for expected credit loss	**(435)**	-	-	**(435)**
Carrying amount	**364,758**	-	-	**364,758**

	31 December 2021			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	120,457	-	-	120,457
Provision for expected credit loss	(2,227)	-	-	(2,227)
Carrying amount	118,230	-	-	118,230

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

8. Investment in an associate

The details of associate is as follows:

Name of the associate	Principal activity	Place of incorporation	Ownership (%)	2022 AED'000	2021 AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	**705**	744

Movement in the investment in an associate for the year:

	2022 AED '000	2021 AED '000
Balance at 1 January	**744**	990
Share of profit/(losses) from an associate	**11**	(197)
Dividend received from an associate	**(50)**	(49)
Balance at 31 December	**705**	744

Summarised financial information in respect of the Group's associate which is accounted by equity method is set out below:

	2022 AED '000	2021 AED '000
Total assets	**8,887**	7,961
Total liabilities	**6,537**	5,481
Net assets	**2,350**	2,480
Group's share of associate's net assets	**705**	744
Total revenue	**11,820**	10,697
Net profit/loss for the year	**35**	(657)
Share of associate's net profit/loss for the year	**11**	(197)

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9. Property and equipment

	Land and buildings* AED'000	Computers and equipment** AED'000	Furniture and fixtures AED'000	Right use assets and Leasehold Improvements AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost							
31 December 2020	137,618	124,294	5,892	7,759	812	7,019	283,394
Additions	39	2,006	27	7,069	-	8,006	17,147
Disposals	(8)	(7,169)	(150)	(899)	(263)	(355)	(8,844)
Transfers	154	11,025	3	474	-	(11,656)	-
31 December 2021	137,803	130,156	5,772	14,403	549	3,014	291,697
Additions	90	1,558	100	-	-	4,604	6,352
Disposals	(10)	(1,243)	(19)	-	-	(13)	(1,285)
Transfers	440	3,474	-	-	-	(3,914)	-
31 December 2022	**138,323**	**133,945**	**5,853**	**14,403**	**549**	**3,691**	**296,764**
Accumulated depreciation							
31 December 2020	79,618	104,545	5,696	6,686	487	-	197,032
Charge for the year	5,269	9,775	133	2,253	88	-	17,518
Eliminated on disposals	(6)	(7,150)	(136)	(899)	(190)	-	(8,381)
31 December 2021	84,881	107,170	5,693	8,040	385	-	206,169
Charge for the year	5,129	10,516	100	2,234	61	-	18,040
Eliminated on disposals	(10)	(1,242)	(19)	-	-	-	(1,271)
31 December 2022	**90,000**	**116,444**	**5,774**	**10,274**	**446**	**-**	**222,938**
Net carrying amount							
31 December 2022	**48,323**	**17,501**	**79**	**4,129**	**103**	**3,691**	**73,826**
31 December 2021	52,922	22,986	79	6,363	164	3,014	85,528

*Land and buildings include land costing AED 22.9 million (2021: AED 22.9 million) which is not depreciated. Capital work in progress represents expenditure incurred on land and buildings, computer and equipment, furniture and fixtures and leasehold improvements.
**Net carrying amount of software included in Computers and equipment amounts to AED 4.66 million as at 31 December 2022. (AED 3.1 million as at 31 December 2021)

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10. Other assets

	2022 AED '000	2021 AED '000
Inventory*	**155,523**	178,362
Interest receivable	**40,619**	32,620
Prepayments and deposits	**32,625**	28,004
Others	**10,358**	4,117
	239,125	243,103

*Inventory represents properties acquired in settlement of debt. During 2022, the Group has recorded an impairment on its inventory amounting to AED 1.04 million (2021: AED 3.74 million)

11. Due to other banks

	2022 AED '000	2021 AED '000
Demand deposits	**8**	-
	8	-

By geographical area

	2022 AED '000	2021 AED '000
Within U.A.E.	**-**	-
Other countries outside U.A.E.	**8**	-
	8	-

12. Customers' deposits and Islamic customer deposits

	2022 AED '000	2021 AED '000
Time deposits	**4,815,695**	4,499,220
Current accounts	**2,773,345**	2,891,856
Savings deposits	**163,351**	171,459
Islamic customers' deposits	**70,530**	84,721
Margin deposits	**39,055**	52,864
	7,861,976	7,700,120

All customers' deposits are from customers within U.A.E.

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13. Other liabilities

	2022 **AED '000**	2021 AED '000
Accounts payable	**31,198**	26,625
Interest payable	**30,296**	12,514
Provision for employees' end of service benefits (Note 13.1)	**19,318**	18,873
Other staff benefits	**1,375**	1,284
Dividend payable	**10,619**	10,619
Provision for expected credit loss on acceptance	**204**	394
Provision for expected credit loss on commitments and contingencies (Note 17)	**2,511**	6,341
Cheques on selves	**62,284**	74,049
Lease Liability	**3,689**	5,235
Other	**19,615**	17,708
	181,109	173,642

13.1 Movement in provision for employees' end of service benefits:

	2022 **AED '000**	2021 AED '000
Balance at 1 January	**18,873**	20,873
Provision made during the year (Note 23)	**2,484**	1,397
Payments made during the year	**(2,039)**	(3,397)
Balance at 31 December	**19,318**	18,873

14. Share capital

	2022 **AED '000**	2021 AED '000
Issued and fully paid:		
2,000 million ordinary shares of AED 1 each (2021-1,848 million ordinary shares of AED 1 each)	**2,000,000**	1,848,000

Pursuant to the requirements of the UAE Central Bank notice number CBUAE/BSD/N/2021/2200 dated 25 April 2021 with regard to the "Minimum Capital for Bank Regulation" and following the approval by shareholders at general meeting in 20 June 2022, the bank's paid up capital was increased to AED 2 billion by way of issuing AED 152 million bonus shares from retained earnings.

15. Statutory reserve

In accordance with the UAE Federal Law No (32) of 2021, as amended, and the U.A.E. Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Group. This reserve is not available for distribution.

16. General reserve

The Group maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Group at an Ordinary General Meeting.

Impairment Reserve under the U.A.E Central Bank("CBUAE")
The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE (the "Guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2022 **AED '000**	2021 AED '000
Impairment Reserve: General		
General Provisions under Circular 28/2010 of CBUAE	**145,150**	151,449
Less: Stage 1 & Stage 2 provisions under IFRS 9*	**(110,564)**	(115,538)
General Provision transferred to impairment reserve	**34,586**	35,911
Impairment Reserve: Specific		
Specific Provisions under Circular 28/2010 of CBUAE	**223,281**	186,021
Less: Stage 3 provisions under IFRS 9	**(223,281)**	(186,021)
Specific Provision transferred to impairment reserve	**-**	-

* Contains Stage 1 and Stage 2 provision for loans and advances and Islamic financing receivables only.

17. Commitments and contingencies

a) The contractual amounts of the Group's commitments and contingencies are as follows:

	2022 **AED '000**	2021 AED '000
Guarantees	**1,580,423**	1,805,349
Letters of credit	**101,921**	139,816
Commitments to extend credit	**1,123,445**	1,131,723
Other	**449,622**	457,028
At 31 December	**3,255,411**	3,533,916

17. Commitments and contingencies (continued)

a) The contractual amounts of the Group's commitments and contingencies are as follows: (continued)

	2022	2021
	AED '000	AED '000
By geographical area		
Within the U.A.E.	**3,193,566**	3,454,044
Outside the U.A.E.	**61,845**	79,872
	3,255,411	3,533,916

Guarantees, which represent irrevocable assurances that the Group will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not quantifiable, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some risk associated with the remainder of commitments, the risk is viewed as low-modest, since it results firstly from the possibility of the unused portion of loan authorizations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

The provision for expected credit loss against the off-balance sheet items disclosed above amounting to AED 2.51 million (2021: 6.34 million) is classified under other liabilities (Note 17.b).

b) Capital commitments

At 31 December 2022, the Group has capital commitments of AED 3.49 million (2021: AED 4.79 million).

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:

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Outstanding balance	**1,623,772**	**17,043**	**41,529**	**1,682,344**
Allowances for impairment (ECL)	**(2,413)**	**(98)**	**-**	**(2,511)**
Carrying amount	**1,621,359**	**16,945**	**41,529**	**1,679,833**

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Outstanding balance	1,896,963	3,867	49,748	1,950,578
Allowances for impairment (ECL)	(6,334)	(7)	-	(6,341)
Carrying amount	1,890,629	3,860	49,748	1,944,237

17. Commitments and contingencies (continued)

b) Capital commitments (continued)

Movement in the gross balance of commitment and contingencies

Outstanding balance	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Gross carrying amount - 1 January 2022	**1,896,963**	**3,867**	**49,748**	**1,950,578**
New assets originated or purchased	**254,668**	**3,042**	**-**	**257,710**
Assets derecognised or repaid (excluding write offs)	**(515,624)**	**(1,820)**	**(8,500)**	**(525,944)**
Transferred from Stage 1	**1,270**	**(1,270)**	**-**	**-**
Transferred from Stage 2	**(13,505)**	**13,505**	**-**	**-**
Transferred from Stage 3	**-**	**(281)**	**281**	**-**
Gross carrying amount – 31 December 2022	**1,623,772**	**17,043**	**41,529**	**1,682,344**

Outstanding balance	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount - 1 January 2021	2,382,539	2,251	49,674	2,434,464
New assets originated or purchased	274,469	-	-	274,469
Assets derecognised or repaid (excluding write offs)	(758,355)	-	-	(758,355)
Transferred from Stage 2	(1,616)	1,616	-	-
Transferred from Stage 3	(74)	-	74	-
Gross carrying amount – 31 December 2021	1,896,963	3,867	49,748	1,950,578

Movement in the provision for impairment of commitment and contingencies:

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
ECL allowances as at 31 December 2021	**6,334**	**7**	**-**	**6,341**
New assets originated or purchased	**808**	**58**	**-**	**866**
Assets derecognised or repaid (excluding write offs)	**(4,654)**	**(39)**	**(3)**	**(4,696)**
Transfer to Stage 2	**(75)**	**75**	**-**	**-**
Transfer to Stage 3	**-**	**(3)**	**3**	**-**
Closing balance as at 31 December 2022	**2,413**	**98**	**-**	**2,511**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowances as at 31 December 2020	7,171	6	-	7,171
New assets originated or purchased	3,629	-	-	3,629
Assets derecognised or repaid (excluding write offs)	(4,466)	1	-	(4,465)
Closing balance as at 31 December 2021	6,334	7	-	6,341

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to AED 2.51 million, (2021: AED 6.34 million) is classified under other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

17. Commitments and contingencies (continued)

Grading of commitment and contingencies along with stages:

	31 December 2022			
	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Performing (Grades 1-8)	1,623,772	16,547	74	1,640,393
Performing watch list (Grades 9-12)	-	496	-	496
Sub Standard (Grade 13)			566	566
Doubtful (Grade 14)			1,445	1,445
Loss (Grades 15)			39,444	39,443
Total gross carrying amount	**1,623,772**	**17,043**	**41,529**	**1,682,344**
Expected credit loss	**(2,413)**	**(98)**	**-**	**(2,511)**
Carrying amount	**1,621,359**	**16,945**	**41,529**	**1,679,833**

	31 December 2021			
	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Performing (Grades 1-8)	1,896,963	1,271	-	1,898,234
Performing watch list (Grades 9-12)	-	2,597	-	2,597
Sub Standard (Grade 13)	-	-	359	359
Doubtful (Grade 14)	-	-	10,765	10,765
Loss (Grades 15)	-	-	38,623	38,623
Total gross carrying amount	1,896,963	3,868	49,747	1,950,578
Expected credit loss	(6,334)	(7)	-	(6,341)
Carrying amount	1,890,629	3,861	49,747	1,944,237

18. Interest income and expense

	2022 AED '000	2021 AED '000
Interest income		
Loans and receivables		
Loans and advances	**326,829**	287,236
Deposits with the U.A.E. Central Bank	**28,674**	2,047
Other banks	**42,240**	6,071
Investment in debt securities	**10,098**	3,299
	407,841	298,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

18. Interest income and expense (continued)

	2022 AED '000	2021 AED '000
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**63,727**	49,488
Borrowings from other banks	**(6)**	(12)
	63,721	49,476

19. Net fees and commission income

	2022 AED'000	2021 AED'000
Fees and commission income	**38,457**	45,496
Fees and commission expenses	**(2,284)**	(1,714)
Net fees and commission income	**36,173**	43,782

20. Other operating income

	2022 AED '000	2021 AED '000
Rental income	**6,546**	4,558
Foreign exchange income, net	**3,883**	3,402
Other*	**50,769**	29,878
	61,198	37,838

*Others include recoveries from written off customers amounting to AED 45.46 million (2021: AED 28.19 million).

21. Operating expenses

	2022 AED '000	2021 AED '000
Staff costs (Note 23)	**84,364**	73,126
Occupancy costs	**9,079**	8,647
Depreciation (Note 9)	**18,040**	17,518
Staff benefits (Note 23)	**8,057**	6,779
Other	**35,233**	30,699
	154,773	136,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

22. Investment gains

	2022 AED '000	2021 AED '000
Dividend income:		
Investment securities at FVTOCI	**36,080**	36,154
Investment securities at FVTPL	**288**	204
Fair value gain/loss on investment securities at FVTPL	**4,622**	(1,364)
Foreign exchange revaluation	**(144)**	2
Net discount amortised on debt securities	**(1,682)**	(892)
	39,164	34,104

23. Staff costs

	2022 AED '000	2021 AED '000
Staff costs		
Salaries and allowances	**81,449**	70,939
Staff training	**755**	517
Housing and medical	**2,160**	1,670
	84,364	73,126

	2022 AED '000	2021 AED '000
Staff benefits		
Pension	**3,718**	3,659
End of service benefits (Note 13.1)	**2,484**	1,397
Other	**1,855**	1,723
	8,057	6,779

24. Net impairment (losses)/reversal

	2022 AED'000	2021 AED'000
Loans and advances and Islamic financing receivables	**(22,085)**	14,257
Due from other banks	**1,594**	(1,146)
Investment securities	**1,792**	(1,978)
Acceptances and off-balance sheet items	**4,020**	863
Impairment of asset acquired in settlement of debt	**(1,043)**	(3,738)
	(15,722)	8,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

25. Basic and diluted earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year.

	2022	2021 (Restated)
Profit for the year in AED	**364,516,000**	264,168,000
Average number of shares in issue	**1,925,041,096**	1,925,041,096
Basic earnings per share in AED	**0.19**	0.14

Weighted average number of shares for the comparative period is adjusted for the bonus shares issued during the current period. There were no potentially dilutive shares as at 31 December 2022 and 2021.

26 Dividend per share

Payment of cash dividend of 10% of the share capital amounting to AED 200 million for year ended 31 December 2022 has been approved by the UAE Central Bank. (2021: AED 147.84 million).

27. Related party transactions

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Group, and all Directors of the Group and companies in which such shareholders and Directors have a significant interest and key management personnel of the Group.

During the year, the Group entered into the following significant transactions with related parties in the ordinary course of business.

	2022 AED'000	2021 AED'000
Interest income	**1,592**	2,151
Interest expense	**41,068**	28,560
Other income	**98**	81
Other loss	**(906)**	-
Directors' fees	**3,000**	2,800

Remuneration of key management personnel

	2022 AED'000	2021 AED'000
Salaries and other short-term benefits	**4,969**	5,598
Employee end of service benefits	**235**	113

The Group has entered into transactions with related parties which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties.

27. Related party transactions (continued)

Outstanding balances at the end of reporting date from transactions with related parties are as follows:

	2022 AED'000	2021 AED'000
Related parties (excluding key management)		
Loans and advances and Islamic financing receivables	**67,192**	82,996
Customer deposits and Islamic customer deposits	**3,394,210**	2,750,770
Irrevocable commitments and contingent liabilities	**121,611**	205,706
Key Management		
Loans and advances and Islamic financing receivables	**628**	-
Customer deposits and Islamic customer deposits	**1,225**	822

The loans and advances and Islamic financing receivables given to related parties have been secured against collateral amounting to AED 72.30 million (2021: AED 61.15 million). All loans and advances to related parties are classified as Stage 1 (31 December 2021: Stage 1) with corresponding ECL of AED 0.84 million (31 December 2021: AED 1.91 million).

28. Cash and cash equivalents

	2022 AED '000	2021 AED '000
Cash and balances with the U.A.E. Central bank (Note 4)	**1,724,400**	1,451,384
Due from other banks (Note 5)	**3,749,587**	3,425,262
	5,473,987	4,876,646
Statutory deposits	**(302,432)**	(345,635)
Due from other banks with original maturity over 3 months	**(1,171,687)**	(902,965)
Due to other banks (Note 11)	**(8)**	-
	3,999,860	3,628,046

29. Business segments

The Group is organised into two main business segments:

Retail and corporate banking **-** wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages. Corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and investments **-** incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Others**-** Other consists of assets, liabilities, income and expenses attributable to either head office or not directly related to business segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

29. Business segments (continued)

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the condensed consolidated statement of financial position items.

Primary segment information

	Retail and corporate banking AED'000	***Treasury and investments AED'000***	***Others AED'000***	***Total AED'000***
31 December 2022				
Net interest income and income from Islamic products net of distribution to depositors	**287,887**	**110,578**	**-**	**398,465**
Net fees and commission income	**36,278**	**-**	**(105)**	**36,173**
Other operating income	**-**	**4,952**	**56,246**	**61,198**
Gross income	**324,165**	**115,530**	**56,141**	**495,836**
Operating expenses	**(37,912)**	**(2,126)**	**(114,735)**	**(154,773)**
Investment gains	**-**	**39,164**	**-**	**39,164**
Share of gain from an associate	**-**	**-**	**11**	**11**
Provision for impairment on financial assets and non-financial assets	**(18,065)**	**3,386**	**(1,043)**	**(15,722)**
Segment result	**268,188**	**155,954**	**(59,626)**	**364,516**
Segment assets	**6,327,908**	**6,610,506**	**666,708**	**13,605,122**
Segment liabilities and equity	**8,096,985**	**-**	**5,508,137**	**13,605,122**

	Retail and corporate banking AED'000	*Treasury an investments AED'000*	*Others AED'000*	*Total AED'000*
31 December 2021				
Net interest income and income from Islamic products net of distribution to depositors	261,338	15,814	-	277,152
Net fees and commission income	43,975	-	(193)	43,782
Other operating income	17	3,411	34,410	37,838
Gross income	305,330	19,225	34,217	358,772
Operating expenses	(34,326)	(2,065)	(100,378)	(136,769)
Investment gains	-	34,104	-	34,104
Share of loss from an associate	-	-	(197)	(197)
Provision for impairment on financial assets and non-financial assets	15,120	(3,125)	(3,737)	8,258
Segment result	286,124	48,139	(70,095)	264,168
Segment assets	6,834,666	5,569,045	738,314	13,142,025
Segment liabilities and equity	7,917,828	-	5,224,197	13,142,025

30. Classification and fair value of financial and non-financial instruments

Assets	**At amortised cost**	**At FVTPL**	**At FVTOCI**	**Non-financial instruments**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
31 December 2022					
Cash and balances with the U.A.E. Central Bank	**1,724,400**	**-**	**-**	**-**	**1,724,400**
Due from other banks	**3,748,482**	**-**	**-**	**-**	**3,748,482**
Loans and advances and Islamic financing receivables	**6,246,243**	**-**	**-**	**-**	**6,246,243**
Investment securities	**364,758**	**16,189**	**956,385**	**-**	**1,337,332**
Customers' acceptances	**235,009**	**-**	**-**	**-**	**235,009**
Investment in an associate	**-**	**-**	**-**	**705**	**705**
Property and equipment	**-**	**-**	**-**	**73,826**	**73,826**
Other assets	**40,619**	**-**	**-**	**198,506**	**239,125**
Total assets	**12,359,511**	**16,189**	**956,385**	**273,037**	**13,605,122**

Assets	At amortised cost	At FVTPL	At FVTOCI	Non-financial instruments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Cash and balances with the U.A.E. Central Bank	1,451,384	-	-	-	1,451,384
Due from other banks	3,422,563	-	-	-	3,422,563
Loans and advances and Islamic financing receivables	6,588,554	-	-	-	6,588,554
Investment securities	118,230	16,616	997,775		1,132,621
Customers' acceptances	217,528	-	-	-	217,528
Investment in an associate	-	-	-	744	744
Property and equipment	-	-	-	85,528	85,528
Other assets	32,620	-	-	210,483	243,103
Total assets	11,830,879	16,616	997,775	296,755	13,142,025

30. Classification and fair value of financial and non-financial instruments (continued)

Liabilities	At amortised Cost AED'000	Non-financial instruments AED'000	Total AED'000
31 December 2022			
Due to other banks	**8**	**-**	**8**
Customers' deposits and Islamic customer deposits	**7,861,976**	**-**	**7,861,976**
Customers' acceptances	**235,009**	**-**	**235,009**
Other liabilities	**154,012**	**27,097**	**181,109**
Total liabilities	**8,251,005**	**27,097**	**8,278,102**
31 December 2021			
Customers' deposits and Islamic customer deposits	7,700,120	-	7,700,120
Customers' acceptances	217,528	-	217,528
Other liabilities	153,485	20,157	173,642
Total liabilities	8,071,133	20,157	8,091,290

Fair value measurements
Fair value is 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. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial instruments measured at amortised cost
The fair value of the quoted debt instruments at amortised cost at 31 December 2022 amounted to AED 359.88 million (31 December 2021: AED 120.28 million). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Except as detailed above, the management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

30. Classification and fair value of financial and non-financial instruments (continued)

Fair value measurements (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value
The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2021.

Fair value of the Group's financial assets that are measured at fair value on recurring basis
Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determine

	Fair value as at		
Financial assets	***31 December 2022 AED '000***	*31 December 2021 AED '000*	***Fair value hierarchy***
Financial assets at FVTPL			
Quoted equity Securities	**15,980**	16,366	Level 1
Discretionary funds managed by third parties – quoted equity securities	**209**	250	Level 1
Financial assets at FVTOCI			
Quoted equity securities	**988,068**	962,197	Level 1
Unquoted equity securities	**34,069**	34,384	Level 3
Positive fair value of Derivative	**745**	63	Level 2
Negative fair value of Derivative	**45**	288	Level 2

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

31. Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance. The Group's exposure can be broadly categorized into the following defined Material Risks:

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

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. NBQ 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 Group has complied with the new 'Capital Adequacy Regulations' issued by the UAE Central Bank during 2017, which is in accordance with the revised rules outlined by the Basel Committee on Banking Supervision in 'Basel III: A global regulatory framework for more resilient banks and banking systems.' Relevant information / details have been disclosed in note 36.

31. Financial risk management (continued)

Credit risk
The Group assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities measured at amortized cost. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralized in the Credit Risk Department with the following objectives:

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units viz., Portfolio & Rating unit, Remedial Unit and Risk Containment Unit. Internal risk rating systems are implemented to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarize the Group's exposure to credit risk.

Credit Risk Mitigation
Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Group in case of default. Such mitigant are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Group are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Market risk
Market risk for the Group refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus, the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Group's earnings and capital to risk.

The market risk department of the Group addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Group's internal market risk policies and strategic business directions.

Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Group's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. Financial risk management (continued)

Interest rate risk
Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Group as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Group manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Group analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 200 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Group. It is controlled through the limit prescribed for the same. Note 33 summarizes the Group's exposure to interest rate risk.

During the year ended 31 December 2022, the effective interest rate on

- Due from other banks was 2.38% (2021: 0.43%)
- Certificate of deposits with Central Bank was 1.96% (2021: 0.4%)
- Loans and advances was 5.38% (2021: 4.70%)
- Investment securities at amortised cost was 3.78% (2021: 2.63%)
- Customers' deposits was 0.83% (2021: 0.63%)
- Due to other banks was 0.76% (2021: 0.01%).

Currency risk
The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 34 summarizes the Group's exposure to foreign currency exchange risk.

Operational risk
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Group. While operational risk cannot be fully eliminated, management endeavor to minimize the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organization.

Continuous progress is being made to enhance our risk governance, driving risk culture across the Group, reinforcing business ownership of risk outcomes and elevate the status of risk management We continue to invest in our operational risk capabilities (in particular cybersecurity, data management, enterprise wide fraud management) to ensure they evolve in response to Group's changing operative environment A comprehensive Business Contingency and Continuity Plan is also in place to anticipate stress situations and mitigate the risk associated with them is under implementation along with regular disaster recovery site testing programs.

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

31. Financial risk management (continued)

Operational risk (continued)

UAE Central Bank during the year has issued a number of standards and regulations on the various elements of overall Risk Management and Capital Management Framework. The standards and regulations includes but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk which were effected in 2022. The Group had taken measures to adhere to the aforementioned new standards and regulations to ensure compliance from the effective implementation date.

The Group has implemented under noted processes aimed at monitoring and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL.

Internal credit risk ratings

To assess the creditworthiness of the borrowers, the Group has in place an internal credit risk rating system. The Group's credit risk grading framework comprises 15 categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Changes in business, financial and economic conditions;
- Information obtained by periodic review of customer files including audited financial statements review

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The table below provides a mapping of the Group's internal credit risk grades.

Group's credit risk grades	Grade	Description
1	AAA	Substantially Risk Free
2	AA+	Low Risk
3	AA	Minimal Risk
4	AA-	Modest Risk
5	A+	Average Risk
6	A	Above Average Risk
7	A-	Medium Risk
8	BBB	Medium to High Risk
9	BB+	Moderately High Risk
10	BB	Significant Risk
11	B+	Significantly High Risk
12	B	Watchlist
13	C	Substandard
14	D	Doubtful
15	E	Loss

31. Financial risk management (continued)

Significant increase in credit risk (continued)

Internal credit risk ratings (continued)
The Group analyses all data collected using statistical models and estimates the lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, Real Estate prices, oil prices, occupancy rates etc. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

Incorporation of forward-looking information
The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group engage experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 7 years except for credit cards where 5 years of historical data was used.

Measurement of ECL
The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These elements are derived from internally developed statistical models based on historical data and data available from reliable sources. They are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors.

LGD is an estimate of the magnitude of loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral. LGD models for unsecured assets consider time of recovery & recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

31. Financial risk management (continued)

Significant increase in credit risk (continued)

Measurement of ECL (continued)
EAD represents the expected exposure at a future default date. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and payment of principal and interest. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on credit conversion factors.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

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 are set out below. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables:

Macroeconomic variables	Scenario	Assigned probabilities	2023	2024	2025	2026	2027
Real Non Oil GDP	Base case	40%	4.82%	3.84%	3.36%	3.73%	3.21%
	Upside	20%	5.45%	4.47%	3.98%	4.36%	3.83%
	Downside	40%	4.19%	3.21%	2.73%	3.11%	2.58%
Dubai stock Market Index	Base case	40%	3,459	3,663	3,882	4,101	4,319
	Upside	20%	3,789	4,013	4,253	4,492	4,731
	Downside	40%	3,158	3,344	3,544	3,743	3,942
Abu Dhabi Stock Market Index	Base case	40%	9,250	10,045	10,621	11,225	11,827
	Upside	20%	9,522	10,317	10,894	11,497	12,100
	Downside	40%	8,977	9,772	10,348	10,952	11,555
Inflation, average consumer price index	Base case	40%	2.45%	2.07%	1.98%	1.96%	2.0%
	Upside	20%	1.94%	1.56%	1.48%	1.45%	1.49%
	Downside	40%	2.96%	2.58%	2.51%	2.47%	2.51%

Sensitivity analysis
Considering (a) global supply chain disruption due to Ukraine/Russia war (b) mirror effect of US led increase in interest rates, the borrowing cost in UAE will tend to increase. This will eventually impact borrower repayment capacity and cashflows
Considering such scenarios, bank has changed the downturn scenario weights to 60% and 70% to reflect the negative impact. Weight to the Upturn scenario maintained at 0%. The impact on stage 1 and stage 2 ECL is given in the below table.

Change in ECL	Downturn scenario 70%	Downturn scenario 60%
Stage 1	+3.97%	+3.17%
Stage 2	+1.55%	+1.23%

31. Financial risk management (continued)

Significant increase in 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 12 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Group's books are rated against a set of predetermined standards which are in line with the UAE Central Bank guidelines.

An analysis of the Group's credit risk exposure per class of financial asset and "stage" without taking into account the effects of any collateral or other credit enhancements along with a summary of the movement in provision for expected credit loss on financial instruments by category is provided note 6 for loans and advances and Islamic financing, note 5 for due from other banks, note 7 for investment securities and note 17 for commitments and contingencies.

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

31. Financial risk management (continued)

Risk mitigation, collateral and credit enhancements (continued)
Estimates of fair value are generally assessed on a periodic basis in accordance with the respective credit policies an estimate of fair value of collateral and other security enhancements held against the loan and Islamic financing portfolio is shown on below:

2022	**Funded balance AED'000**	**Non-funded balance AED'000**	**Immovable collateral AED'000**	**Other collateral AED'000**	**Total collateral AED'000**
Stage1	**5,461,704**	**1,858,856**	**8,612,537**	**1,631,569**	**10,244,106**
Stage2	**495,712**	**17,043**	**1,147,858**	**4,128**	**1,151,986**
Stage3	**622,672**	**41,454**	**902,972**	**13,885**	**916,857**
Total	**6,580,088**	**1,917,353**	**10,663,367**	**1,649,582**	**12,312,949**

2021	Funded balance AED'000	Non-funded balance AED'000	Immovable collateral AED'000	Other collateral AED'000	Total collateral AED'000
Stage1	6,910,354	1,078,288	10,279,480	1,628,621	11,908,101
Stage2	424,225	3,867	816,504	1,675	818,179
Stage3	591,737	49,748	978,597	18,988	997,585
Total	7,926,316	1,131,903	12,074,581	1,649,284	13,723,865

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Maximum exposure	
	2022 AED'000	2021 AED'000
Credit risk exposures relating to;		
On-balance sheet		
Due from other banks	**3,748,482**	3,422,563
Loans and advances and Islamic financing receivables	**6,246,243**	6,588,554
Customer acceptances	**235,009**	217,528
Investment securities	**364,758**	118,230
Other assets	**40,619**	32,620
Total	**10,635,111**	10,379,495
Off-balance sheet		
Loan commitments and other off balance sheet items	**1,682,344**	1,950,578
Total	**12,317,455**	12,330,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

31. Financial risk management (continued)

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.

Credit exposures to individual customers or customer groups are controlled through a tiered hierarchy of delegated approval authorities. Approval is required from the UAE Central Bank for exposures which are likely to exceed single counterparty / group limit(s), keeping in view the regulatory capital base, in accordance with the regulations of monitoring of large exposure limits issued by the UAE Central Bank. The Group monitors concentrations of credit risk by industry, sector and geographic location. The Group has further defined portfolio caps for its specialized businesses like Marine and Energy and Precious metals segments.

Credit risk and risk weights

31 December 2022

Asset classes		Credit Risk Mitigation (CRM)			
	Gross outstanding AED '000	**Exposure before CRM AED '000**	**CRM AED '000**	**Exposure after CCF AED '000**	**Risk Weighted Assets AED '000**
Claims on sovereigns	**2,164,126**	**2,164,126**	**-**	**2,164,126**	**372,507**
Claims on banks	**3,788,902**	**3,788,902**	**-**	**3,788,902**	**1,412,388**
Claims on Corporate and Government Related Enterprises (GRE's)	**4,940,466**	**4,937,576**	**275,004**	**4,036,767**	**3,641,484**
Claims included in the regulatory retail portfolio	**1,297,054**	**1,294,555**	**850,549**	**1,273,960**	**364,804**
Claims secured by commercial real estate	**2,555,957**	**2,547,190**	**18,182**	**2,373,073**	**2,354,891**
Past due loans	**822,253**	**452,496**	**5,048**	**452,496**	**602,301**
Other assets	**1,330,124**	**1,330,124**	**-**	**1,330,124**	**912,145**
Claims secured by Residential property	**9,335**	**9,335**	**-**	**8,596**	**8,360**
Higher risk category	**5,208**	**5,208**	**-**	**5,208**	**7,811**
Total claims	**16,913,425**	**16,529,512**	**1,148,783**	**15,433,252**	**9,676,691**
Total credit risk weighted assets					**9,676,691**

31. Financial risk management (continued)

Credit risk and risk weights (continued)

31 December 2021

Asset classes	Credit Risk Mitigation (CRM)				
	Gross outstanding AED '000	Exposure before CRM AED '000	CRM AED '000	Exposure after CCF AED '000	Risk Weighted Assets AED '000
Claims on sovereigns	849,276	849,276	-	849,276	119,203
Claims on banks	3,440,390	3,440,390	-	3,440,390	1,282,290
Claims on Corporate and Government Related Enterprises (GRE's)	4,825,639	4,825,639	312,897	3,741,178	3,332,638
Claims included in the regulatory retail portfolio	1,506,233	1,506,233	1,050,752	1,483,594	381,873
Claims secured by commercial real estate	3,255,010	3,255,010	73,441	3,164,514	3,091,073
Past due loans	442,834	442,834	-	442,834	586,973
Other assets	2,019,503	2,019,503	-	2,019,503	1,281,242
Claims secured by Residential property	3,013	3,013	-	3,013	2,881
Higher risk category	12,275	12,275	30,355	12,275	18,413
Total claims	16,354,173	16,354,173	1,467,445	15,156,577	10,096,586
Total credit risk weighted assets					10,096,586

Loans and advances and Islamic financing receivables with renegotiated terms

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

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

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

31. Financial risk management (continued)

Credit risk and risk weights (continued)

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

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

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

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

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

Write-off policy

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

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

32. Liquidity risk

The maturities of assets and liabilities have been determined on the basis of contractual maturity. The table below sets out the Group's assets, liabilities, equity at carrying amounts and off balance sheet items, categorised by the earlier of contractual repricing or maturity dates.

Maturity profile

Assets

31 December 2022

	Upto 1 month AED'000	1 month - 3 months AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	1,421,968	-	-	302,432	-	-	1,724,400
Due from other banks	1,772,513	804,282	771,330	400,357	-	-	3,748,482
Loans and advances and Islamic financing receivables	219,058	255,106	835,310	3,413,593	1,523,176	-	6,246,243
Investment securities	376,225	-	692,053	269,054	-	-	1,337,332
Customers' acceptances	51,686	89,264	94,059	-	-	-	235,009
Other financial assets	40,619	-	-	-	-	-	40,619
Non-financial assets	-	-	-	-	-	273,037	273,037
Total	3,882,069	1,148,652	2,392,752	4,385,436	1,523,176	273,037	13,605,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Liquidity risk (continued)

Maturity profile (continued)

Assets

31 December 2021

	Upto 1 month AED'000	1 month - 3 months AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	1,005,768	99,982	-	345,634	-	-	1,451,384
Due from other banks	1,375,473	1,144,125	150,000	752,965	-	-	3,422,563
Loans and advances and Islamic financing receivables	226,755	261,488	685,451	3,688,303	1,726,557	-	6,588,554
Investment securities	304,317	-	728,559	99,745	-	-	1,132,621
Customers' acceptances	38,016	85,813	93,699	-	-	-	217,528
Other financial assets	32,620	-	-	-	-		32,620
Non-financial assets	-	-	-	-	-	296,755	296,755
Total	2,982,949	1,591,408	1,657,709	4,886,647	1,726,557	296,755	13,142,025

32. Liquidity risk (continued)

Liabilities, equity and off-balance sheet items

31 December 2022

	Upto 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Over 5 years	With no contractual maturity	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED '000	AED'000
Due to other banks	8	-	-	-	-	-	8
Customers' deposits and Islamic customer deposits	2,081,236	392,316	2,471,675	2,916,739	10	-	7,861,976
Customers' acceptances	51,687	89,264	94,058	-	-	-	235,009
Other financial liabilities	76,099	43,885	23,412	-	10,620	-	154,016
Non-financial liabilities	-	-	4,090	3,689	19,318	-	27,097
Shareholders' equity	-	-	-	-	-	5,327,018	5,327,018
A. Total on-balance sheet items	2,209,030	525,465	2,593,235	2,920,428	29,948	5,327,018	13,605,124
Forward rate contracts	404,640	21,721	-	-	-	-	426,361
Guarantees	361	-	1,083	-	-	-	1,444
Unavailed limits	607,765	45,170	435,290	-	-	-	1,088,225
B. Total off-balance sheet items	1,012,766	66,891	436,373	-	-	-	1,516,030
Grand total [A+B]	3,221,796	592,356	3,029,608	2,920,428	29,948	5,327,018	15,121,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Liquidity risk (continued)

Liabilities, equity and off balance sheet items (continued)

31 December 2021

	Upto 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Over 5 years	With no contractual maturity	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED '000	AED'000
Due to other banks	-	-	-	-	-	-	-
Customers' deposits and Islamic customer deposits	2,165,507	396,619	1,806,299	3,331,664	31	-	7,700,120
Customers' acceptances	38,017	85,811	93,700	-	-	-	217,528
Other financial liabilities	17,892	43,329	31,071	43,822	10,636	-	146,750
Non-financial liabilities	-	-	8,019	-	18,873		26,892
Shareholders' equity	-	-	-	-	-	5,050,735	5,050,735
A. Total on-balance sheet items	2,221,416	525,759	1,939,089	3,375,486	29,540	5,050,735	13,142,025
Forward rate contracts	224,608	201,453	4,198	-	-	-	430,259
Spot / Split Sale	1,392	-	-	-	-	-	1,392
Guarantees	4,579	-	13,737	-	-	-	18,316
Unavailed limits	620,994	33,050	436,029	-	-	-	1,090,073
B. Total off-balance sheet items	851,573	234,503	453,964	-	-	-	1,540,040
Grand total [A+B]	3,072,989	760,262	2,393,053	3,375,486	29,540	5,050,735	14,682,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

31 December 2022

	Carrying amount	**Gross nominal outflows**	**Within 3 months**	**Over 3 months to 1 year**	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Financial liabilities							
Due to banks	**8**	**(8)**	**8**	**-**	**-**	**-**	**-**
Customer deposits and Islamic customer deposits	**7,861,976**	**(7,861,976)**	**2,473,552**	**2,471,675**	**2,916,739**	**10**	**-**
	7,861,984	**(7,861,984)**	**2,473,560**	**2,471,675**	**2,916,739**	**10**	**-**
Letters of credit and guarantees	**799,714**	**(799,714)**	**489,184**	**276,477**	**33,764**	**289**	**-**

31 December 2021

	Carrying amount	Gross nominal outflows	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial liabilities							
Due to banks	-	-	-	-	-	-	-
Customer deposits and Islamic customer deposits	7,700,120	(7,700,120)	2,562,126	1,806,299	3,331,372	292	31
Borrowing from the U.A.E. Central Bank							
	7,700,120	(7,700,120)	2,562,126	1,806,299	3,331,372	292	31
Letters of credit and guarantees	898,705	(898,705)	555,017	310,334	30,177	3,177	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)
The positive/ negative fair values of derivative financial instruments entered into by the Group, at the reporting date are as below:

	2022			2021		
	Positive fair value	Negative fair value	Notional Value	Positive fair value	Negative fair value	Notional Value
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Derivatives						
Foreign currency forward contracts	745	45	427,095	63	288	428,900
	745	45	427,095	63	288	428,900

33. Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
At 31 December 2022					
Financial assets					
Cash and balances with the U.A.E. Central bank	1,330,141	-	-	394,259	1,724,400
Due from other banks	3,291,349	367,300	-	89,833	3,748,482
Loans and advances and Islamic receivables	5,113,239	183,219	940,910	8,875	6,246,243
Investment securities	84,453	11,251	269,053	972,575	1,337,332
Customers' acceptances	-	-	-	235,009	235,009
Other financial assets	-	-	-	40,619	40,619
Total	9,819,182	561,770	1,209,963	1,741,170	13,332,085
Financial liabilities					
Due to other banks	-	-	-	8	8
Customers' deposits and Islamic customer deposits	3,926,894	2,444,336	605,700	885,046	7,861,976
Customers' acceptances	-	-	-	235,009	235,009
Other financial liabilities	-	-	-	154,012	154,012
Total	3,926,894	2,444,336	605,700	1,274,075	8,251,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

33. Interest rate risk (continued)

	Less than 3 months AED'000	**From 3 months to 1 year AED'000**	**Over 1 year AED'000**	**Non-interest bearing AED'000**	**Total AED'000**
On balance sheet interest rate sensitivity gap	**5,892,288**	**(1,882,566)**	**604,263**	**467,095**	**5,081,080**
Off balance sheet interest rate sensitivity gap	-	-	-	**(1,089,669)**	**(1,089,669)**
Cumulative interest rate sensitivity gap	**5,892,288**	**(1,882,566)**	**604,263**	**(622,574)**	**3,991,411**

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
At 31 December 2021					
Financial assets					
Cash and balances with the U.A.E. Central bank	974,957	-	-	476,427	1,451,384
Due from other banks	2,859,934	168,365	367,300	26,964	3,422,563
Loans and advances and Islamic receivables	3,735,305	126,492	2,717,811	8,946	6,588,554
Investment securities	-	18,485	99,745	1,014,391	1,132,621
Customers' acceptances	-	-	-	217,528	217,528
Other financial assets	-	-	-	32,620	32,620
Total	7,570,196	313,342	3,184,856	1,776,876	12,845,270
Financial liabilities					
Due to other banks					
Customers' deposits and Islamic customer deposits	3,416,205	1,769,294	768,345	1,746,276	7,700,120
Customers' acceptances	-	-	-	217,528	217,528
Other financial liabilities	-	-	-	159,826	159,826
Total	3,416,205	1,769,294	768,345	2,123,630	8,077,474

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
On balance sheet interest rate sensitivity gap	4,153,991	(1,455,952)	2,416,511	(346,754)	4,767,796
Off balance sheet interest rate sensitivity gap	-	-	-	(1,108,388)	(1,108,388)
Cumulative interest rate sensitivity gap	4,153,991	(1,455,952)	2,416,511	(1,455,142)	3,659,408

33. Interest rate risk (continued)

Rate sensitivity analysis

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
200	**+97,486**	**-97,486**	+67,733	-67,733

Method and assumptions for sensitivity analysis

- Since interest rates are almost at the lower end of the interest rate cycles, hence rate sensitive analysis is undertaken
- If interest rates may go up or down by 200 bps. 200 bps is taken as per Basel guidelines.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the midpoint of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, (EVE analysis), weighted modified duration of Rate Sensitive Assets (“RSA”) and Rate Sensitive Liabilities (“RSL”) for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

34. Currency risk

Concentration of financial assets and liabilities by currency:

	AED AED'000	USD AED'000	Other AED'000	Total AED'000
At 31 December 2022				
Financial assets				
Cash and balances with the U.A.E. Central Bank	1,723,626	774	-	1,724,400
Due from other banks	1,109,895	2,625,672	12,916	3,748,483
Loans and advances and Islamic receivables	5,972,598	273,640	5	6,246,243
Investment securities	929,190	367,849	40,293	1,337,332
Customers' acceptances	235,009	-	-	235,009
Other financial assets	27,435	13,184	-	40,619
Total financial assets	9,997,753	3,281,119	53,214	13,332,086
Financial liabilities				
Due to other banks	-	-	8	8
Customers' deposits and Islamic customer deposits	7,637,302	191,078	33,596	7,861,976
Customers' acceptances	235,009	-	-	235,009
Other financial liabilities	153,765	90	157	154,012
Total financial liabilities	8,026,076	191,168	33,761	8,251,005
Net balance sheet position	1,971,677	3,089,951	19,453	5,081,081
Off balance sheet position	2,800,820	427,801	26,790	3,255,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

34. Currency risk (continued)

Concentration of financial assets and liabilities by currency: (continued)

	AED AED'000	USD AED'000	Other AED'000	Total AED'000
At 31 December 2021				
Financial assets				
Cash and balances with the U.A.E. Central Bank	1,450,781	603	-	1,451,384
Due from other banks	1,692,301	1,723,810	6,452	3,422,563
Loans and advances and Islamic receivables	6,588,554	-	-	6,588,554
Investment securities	931,701	154,841	46,079	1,132,621
Customers' acceptances	217,528	-	-	217,528
Other financial assets	28,935	3,685	-	32,620
Total financial assets	10,909,800	1,882,939	52,531	12,845,270
Financial liabilities				
Customers' deposits and Islamic customer deposits	7,539,933	141,047	19,140	7,700,120
Customers' acceptances	217,528	-	-	217,528
Other financial liabilities	146,503	90	157	146,750
Total financial liabilities	7,903,964	141,137	19,297	8,064,398
Net balance sheet position	3,005,836	1,741,802	33,234	4,780,872
Off balance sheet position	3,077,095	430,822	31,411	3,539,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

34. Currency risk (continued)

Rate sensitivity analysis

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the Balance Sheet date.
- Exchange rate change of 2% in AED against the respective pegged foreign currencies and exchange rate change of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

Year 2022

	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
	AED'000	AED'000	AED'000	AED'000	AED'000
Pegged Currencies					
US Dollar	3,281,144	223,997	(425,407)	2,631,740	(52,635)
Saudi Riyal	40,369	-	-	40,369	(807)
Bahrain Dinar	225	-	-	225	(5)
Omani Riyal	321	-	-	321	(6)
Qatar Riyal	145	8	-	137	(3)
Other Currencies	-	-	-	-	-
Kuwait Dinar	485	1	-	484	(48)
Great British Pound	2,135	24,179	22,137	93	(9)
Euro	8,794	9,471	646	(31)	3
Swiss Frank	239	4	(199)	37	(4)
Japanese Yen	314	37	(279)	(1)	-
Indian Rupee	-	8	-	(8)	1
Lankan Rupee	3	-	-	3	-
Jordanian Dinar	195	-	-	195	(20)
	3,334,369	257,705	(403,102)	2,673,564	
Total impact if foreign currency fluctuates against AED					(53,533)

34. Currency risk (continued)

Rate sensitivity analysis (continued)

Year 2021

	Foreign currency assets AED'000	Foreign currency liabilities AED'000	Net forward purchase/ (sale) AED'000	Net long/ (short) position AED'000	Impact on statement of income and equity AED'000
Pegged Currencies					
US Dollar	1,880,473	175,483	(411,378)	1,293,612	(25,872)
Saudi Riyal	45,855	-	-	45,855	(917)
Bahrain Dinar	186	-	-	186	(4)
Omani Riyal	161	-	(8,395)	(8,234)	165
Qatar Riyal	77	8	-	69	(1)
Other Currencies					
Kuwait Dinar	498	-	-	498	(50)
Great British Pound	2,362	16,225	13,873	10	(1)
Euro	2,756	2,927	187	16	(2)
Swiss Frank	229	4	(201)	24	(2)
Japanese Yen	323	42	(319)	(38)	4
Indian Rupee	20	-	-	20	(2)
Lankan Rupee	4	-	-	4	(0)
Jordanian Dinar	62	-	-	62	(6)
	1,933,006	194,689	(406,233)	1,332,084	
Total impact if foreign currency fluctuates against AED					(26,688)

35. Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 20% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's:

- Consolidated statement of comprehensive income would have increased/decreased by AED 191.28 million (2021: AED 190.34 million) and consolidated statement of income would have increased/decreased by AED 3.2 million (2021: 3.3 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.
- As at the reporting date if equity prices are 20% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 20% change in equity prices has been used to give a realistic assessment as a plausible event.

36. Capital management

Group's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Group's future dividend policy. The Group also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Group had complied in full with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 13%.

Capital structure

The table below details the regulatory capital resources of the Group:

	2022 AED'000	2021 AED'000
Tier 1 Capital		
Share capital	**2,000,000**	1,848,000
Statutory reserve	**1,019,266**	1,019,266
General reserve	**41,026**	6,440
Fair value reserves on investment securities at FVTOCI	**172,670**	167,678
Retained earnings	**1,683,018**	1,804,411
Regulatory deductions	**(4,656)**	-
Other deductions	**(327,943)**	-
Total Tier 1	**4,583,381**	4,845,795
Tier 2 Capital		
General reserves on loans and advances	**120,959**	126,207
Total Tier 2	**120,959**	126,207
Total Regulatory Capital	**4,704,340**	4,972,002

	2022 AED'000	2021 AED'000
Risk weighted assets:		
Credit risk-weighted assets	**9,676,691**	10,096,586
Market risk-weighted assets	**75,328**	89,939
Operations risk-weighted assets	**875,409**	945,779
Total risk-weighted assets	**10,627,427**	11,132,304

36. Capital management (continued)

BASEL III Capital Ratio

As per UAE Central Bank Regulation for Basel III, Minimum Capital Requirement including Capital Conservation Buffer is 10.5% for the year 2022.

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2021 (Primary reporting from Q4'2021 onwards) introducing minimum capital requirements at the three levels, namely Common Equity Tier 1 ('CET 1'), Tier 1 ('T1') and Total Capital.

The additional capital buffers Capital Conservation Buffer (CCB) maximum up to 2.5% and Countercyclical Capital Buffer (CCyB) maximum up to 2.5% introduced over and above the minimum CET1 requirements of 7%.

For year 2022, CCB will be required at 2.5% of the capital base. Countercyclical Capital Buffer (CCyB) is in the effect and is not required to be maintained for year 2022.

The Capital Adequacy Ratio as per Basel III capital regulation is given below:

Capital ratio	**2022** %	2021 %
Total capital adequacy ratio	**44.27**	44.66
Common equity Tier 1 capital ratio	**43.13**	43.53
Tier 1 capital ratio	**43.13**	43.53

Minimum capital required under each of the above items including CCB is as below;

	2022	2021
Capital element		
Minimum Common Equity Tier 1 (CET 1) ratio	**7%**	7%
Minimum tier 1 capital ratio	**8.5%**	8.5%
Minimum capital adequacy ratio	**10.5%**	10.5%
Capital conversion buffer (CCB)	**2.5%**	2.5%

37. 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.

38. Social contributions

The social contributions (including donations and charity) made during the year to various beneficiaries amount to AED 0.08 million (2021: AED 0.16 million).

39. Comparative figures

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

40. Taxation

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 (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

Generally, UAE businesses will be subject to a 9% CT rate. 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). In addition, there are several other decisions that are yet to be finalised by way of a Cabinet Decision that are significant in order for entities to determine their tax status and the taxable income. Therefore, pending such important decisions by the Cabinet as at 31 December 2022, the Bank has considered that the Law is not substantively enacted from IAS 12 – Income Taxes perspective as at 31 December 2022. The Bank shall continue to monitor the timing of the issuance of these critical cabinet decisions to determine its tax status and the application 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 critical cabinet decisions are issued.

41. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 07 February 2023.

بنك أم القيوين
NBQ

إسلامي
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Islamic Banking

Annual Report of the Executive Member of the Shari'a Supervision on the Islamic Banking Unit of National Bank of Umm Al-Qaiwain

Praise be to Almighty Allah, Lord of the Worlds, and prayers and peace be upon the most honorable of the prophets and messengers, our master Muhammad, and on his family and companions.

Issued on: 30 January 2023

To: Shareholders of National Bank of Umm Al-Qaiwain ("Islamic Unit")

Peace, mercy and blessings of Allah the Almighty upon you, and afterwards:
In reference to the Bank's management's decision to appoint me as an Executive Member of Shari'a Supervision (the "Executive Member") of the Islamic Banking Unit at NBQ ("the Islamic Unit") in accordance with the requirements set out in the relevant laws, regulations and standards (the "Regulatory Requirements"), and in implementation of the CBUAE's decision to oblige the Bank to appoint an Executive Member for Shari'a Supervision of the closure of all operations and activities of the Islamic Unit in general, I submit to you the annual report relating to the business and activities of the Islamic Unit for the financial year ended 31 December 2022 (the "Financial Year").

1. **Responsibility of the Executive Member**

The responsibility of the Executive Member is to carry out Shari'ah supervision of the closure of the Islamic Unit and the operations and activities related thereto in general, to verify the financial statements of the Islamic Unit, to verify the distribution of profits and the charged losses, the costs and expenses between the shareholders and the investment account holders (the "Islamic Unit Closure Business") and to issue Shari'ah resolutions thereon, within the framework of the rules, principles and standards that Established by the Higher Sharia Authority (the "**Authority**").

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2. **Responsibility of the Bank's Management**

The Bank's management is responsible for complying with the rules and principles of Islamic Shari'ah in accordance with the decisions, Shari'ah pronouncements, opinions of the Authority, and the decisions of the Executive Member within the framework of the rules, principles and standards set by the Authority ("Compliance with the rules of Islamic Shari'ah") in the work of the Islamic Unit and ensuring that, and the Board of Directors bears the ultimate responsibility in this regard.

3. **Sharia Standards**

The Executive Member has adopted the Shari'a Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as the minimum Shari'a requirements. He has adhered to them in all fatwas (Shari'ah pronouncements) and decisions issued, approved, accepted or recommended by him in relation to the business of the Islamic Unit during the financial year ended. According to the Authority's decision No. 18/3/2018.

4. **Status of Islamic Unit**

   1. A decision was issued by the Bank's management to run down its Islamic Unit on (21/09/2021).
   2. The Bank's management has developed a detailed plan regarding the closure of the Islamic Unit and how to dispose the existing Shari'ah-compliant assets and financing. The Islamic Unit has obtained the approval from the previous Internal Shari'a Supervision Committee (ISSC) on this plan.
   3. The CBUAE has approved the closure of the Islamic Unit in accordance with the plan set by the Bank's management, with the directive that the Executive Member continue to monitor the Islamic Unit's compliance with Islamic Shari'ah until all Shariah-compliant assets and liabilities are disposed of.
   4. The Islamic Unit has stopped to accept any new deposits or funds as of the date of the decision to close the Islamic Unit.

5. Since the Islamic Unit has stopped accepting any deposits or establishing new finances, in preparation for its closure, the Islamic Unit does not currently have an existing Shari'a control nor Internal Shari'a Audit Department.
6. The Bank's management has contracted an independent body to conduct an External Shari'ah Audit and submit a report thereon to the Executive Member and the Bank's Board of Directors.

5. Acts performed by the Executive Member during the financial year

The Executive Member has carried out Shari'ah supervision over the work of the Islamic Unit during the financial year, in accordance with his authorities, responsibilities and regulatory requirements in this regard. Among the actions carried out by the Executive Member are the following:

a. Holding (3) meetings during the financial year.
b. Issuing fatwas and decisions regarding the work of the Islamic Unit that were presented to the Executive Member.
c. To ensure that the distribution of the profits and the charging of costs and expenses between the shareholders and the investment account holders are consistent with the Shari'ah controls approved by the Executive Member.
d. Review the reports of the External Sharia Audit on the work of the Islamic Unit, including the transactions carried out and the procedures followed, review them and make Shari'ah recommendations in this regard.
e. Provide guidance to the Islamic Unit's management to correct any correction of observations contained in the External Shari'ah Audit reports.
f. Communicate with the Board of Directors, its committees and the senior management of the Islamic Unit, as needed, regarding the Islamic Unit's commitment to Islamic Shari'ah.
g. Review the balance sheet of the Islamic Unit as at 31 December 2022 and the consolidated income statement of the Islamic Unit for the period ended 31 December 2022 for adoption/approval.

The Executive Member has sought to obtain all the information and explanations that he considered necessary to ensure that the Islamic Unit adheres to the provisions of Islamic Shari'ah.

6. **The Independency of the Executive Member**

The Executive Member confirms that he has fulfilled his responsibilities and carried out all his work with complete independence. He confirms that he has received the necessary assistance from the Islamic Unit's management to view all documents and data, to discuss the amendments and the Shari'ah requirements for the business of the Islamic Unit.

7. **The opinion**

Based on the information and clarifications obtained in order to ensure that the Islamic Unit complies with the rules of Islamic Shari'ah in its business, and to ensure that the remaining assets/financing business that are still in the books of the Islamic Unit are liquidated in accordance with the provisions and principles of Islamic Shari'ah, and in the light of the information it has been seen during the financial year, I have concluded with an acceptable degree of reassurance that the work of the Islamic unit during the financial year was in accordance with the rules of Islamic Shari'ah.

We ask Allah the Almighty to achieve guidance and to follow the right direction for all

Peace, mercy and blessings of Allah upon you all

Signature of the Executive Member of the Islamic Unit

Sheikh Abdul Sattar Al-Qattan