National Bank of Fujairah PJSC
Condensed consolidated interim financial information
For the three month period ended
31 March 2018

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Review report on condensed consolidated interim financial information to the Shareholders and Directors of National Bank of Fujairah PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of National Bank of Fujairah ("the Bank") and its subsidiaries (together referred to as "the Group") as at 31 March 2018 and the related condensed consolidated interim statements of income, comprehensive income, cash flows and changes in equity for the three-month period then ended and other explanatory information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting.

PricewaterhouseCoopers
25 April 2018

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

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Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

National Bank of Fujairah PJSC

Consolidated interim statement of financial position

As at 31 March 2018

	Note	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Assets			
Cash and balances with the UAE Central Bank	*6*	5,597,713	6,916,739
Due from banks and financial institutions	*7*	1,552,155	1,940,018
Investments and Islamic instruments	*8*	2,368,610	1,916,322
Loans and advances and Islamic financing receivables	*9*	25,209,548	24,065,827
Property and equipment and capital work-in-progress		170,821	164,533
Other assets		1,705,787	1,652,937
Total assets		36,604,634	**36,656,376**
Liabilities			
Due to banks	*11*	954,464	627,515
Customer deposits and Islamic customer deposits	*12*	27,788,854	27,864,997
Term borrowings	*11*	1,263,155	1,410,075
Other liabilities		1,892,856	1,863,151
Total liabilities		31,899,329	**31,765,738**
Shareholders' equity			
Share capital	*13*	1,469,016	1,366,527
Statutory reserve		549,992	549,992
Special reserve		444,992	444,992
Fair value reserve		(10,377)	(4,089)
Proposed cash dividends		-	102,489
Proposed bonus issue		-	102,489
Credit risk reserve		113,956	-
Retained earnings		1,137,726	1,328,238
Tier 1 capital notes	*14*	1,000,000	1,000,000
Total shareholders' equity		4,705,305	**4,890,638**
Total liabilities and shareholders' equity		36,604,634	**36,656,376**

This condensed consolidated interim financial information was approved by the Board of Directors on 25 April 2018 and was signed on its behalf by:

Vince Cook
Chief Executive Officer

Adnan Anwar
Chief Financial Officer

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information. The review report of the independent auditor is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of income – (Un-audited)

For the three month period ended 31 March 2018

	Note	Three month period ended 31 March 2018 AED'000	Three month period ended 31 March 2017 AED'000
Interest income and income from Islamic financing and investment activities		386,474	344,312
Interest expense and distribution to Islamic depositors		(142,135)	(136,955)
Net interest income and net income from Islamic financing and investment activities		**244,339**	**207,357**
Net fees and commission income		82,219	86,771
Foreign exchange and derivatives income		36,256	25,247
Income from investments and Islamic instruments		(602)	2,348
Other operating income		6,980	2,899
Operating income		**369,192**	**324,622**
Operating expenses			
Employee benefits expense		(83,266)	(78,353)
Depreciation and amortization		(6,190)	(6,224)
Other operating expenses		(31,759)	(28,053)
Total operating expenses		**(121,215)**	**(112,630)**
Operating profit		**247,977**	**211,992**
Net impairment losses	*7,8,9*	(102,623)	(85,895)
Profit for the period		**145,354**	**126,097**
Earnings per share (basic and diluted)	*15*	**AED 0.08**	**AED 0.06**

Appropriations have been reflected in the consolidated interim statement of changes in equity.
The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information.
The review report of the independent auditor is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of comprehensive income – (Un-audited)

For the three month period ended 31 March 2018

	Three month period ended 31 March 2018 AED'000	Three month period ended 31 March 2017 AED'000
Profit for the period	**145,354**	**126,097**
Other comprehensive income:		
Items that are or may be re-classified subsequently to the statement of income		
Changes in fair value through other comprehensive income (FVOCI) / available-for-sale investments:		
Net fair value gains on disposal of FVOCI / available-for-sale investments	**(844)**	(2,637)
Net changes in fair value of FVOCI / available-for-sale investments	**(11,549)**	6,647
Net change in FVOCI / available-for-sale-investments	**(12,393)**	**4,010**
Total comprehensive income for the period	**132,961**	**130,107**

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information. The review report of the independent auditor is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of cash flows – (Un-audited)

For the three month period ended 31 March 2018

Operating activities	*Note*	**Three month period ended 31 March 2018 AED'000**	**Three month period ended 31 March 2017 AED'000**
Profit for the period		**145,354**	**126,097**
Adjustments for :			
Depreciation and amortization		**6,190**	6,224
Provision for employee end of service and other long term benefits		**3,338**	3,252
Net impairment losses		**102,623**	85,895
Net fair value gains on disposal of investments and Islamic instruments		**(3,481)**	(2,637)
Net changes in fair value of investments at fair value through profit or loss		**4,083**	289
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		**258,107**	**219,120**
Payment of employee end of service and other long term benefits		**(1,848)**	(2,720)
Change in statutory reserve with the UAE Central Bank		**(98,346)**	(160,008)
Change in due from banks and financial institutions		**428,964**	135,234
Change in loans and advances and Islamic financing receivables		**(1,427,927)**	(450,704)
Change in other assets		**(52,850)**	75,146
Change in due to banks		**55,993**	(51,485)
Change in customer deposits and Islamic customer deposits		**(178,632)**	473,198
Change in other liabilities		**28,215**	(14,208)
Net cash (used in) / generated from operating activities		**(988,324)**	**223,573**
Investing activities			
Purchase of property and equipment and capital work-in-progress		**(12,478)**	(13,652)
Purchase of investments and Islamic instruments		**(1,197,075)**	(407,996)
Proceeds from sale of investments and Islamic instruments		**736,711**	365,585
Net cash used in investing activities		**(472,842)**	**(56,063)**
Financing activities			
Proceeds from term borrowings		**183,650**	165,285
Repayment of term borrowings		**(330,570)**	(680,554)
Tier 1 capital notes coupon paid		**(35,094)**	(35,094)
Net cash used in financing activities		**(182,014)**	**(550,363)**
Net change in cash and cash equivalents		**(1,643,180)**	**(382,853)**
Cash and cash equivalents at beginning of the period		**5,849,839**	5,915,326
Cash and cash equivalents at end of the period	*18*	**4,206,659**	**5,532,473**

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The review report of the independent auditor is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of changes in equity – (Un-audited)

For the three month period ended 31 March 2018

	Share capital AED'000	Statutory Reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Proposed dividends AED'000	Retained earnings AED'000	Credit risk reserve AED'000	Tier 1 capital notes AED'000	Total AED'000
At 1 January 2017	1,271,188	503,223	398,223	(9,536)	190,678	1,225,280	-	1,000,000	4,579,056
Total comprehensive income for the period	-	-	-	4,010	-	126,097	-	-	130,107
Tier 1 capital notes coupon paid (note 14)	-	-	-	-	-	(35,094)	-	-	(35,094)
2016 cash dividends	-	-	-	-	(95,339)	-	-	-	(95,339)
2016 bonus shares issued	95,339	-	-	-	(95,339)	-	-	-	-
At 31 March 2017	**1,366,527**	**503,223**	**398,223**	**(5,526)**	**-**	**1,316,283**	**-**	**1,000,000**	**4,578,730**
At 1 January 2018	**1,366,527**	**549,992**	**444,992**	**(4,089)**	**204,978**	**1,328,238**	**-**	**1,000,000**	**4,890,638**
Initial application of IFRS 9	**-**	**-**	**-**	**6,105**	**-**	**(300,772)**	**113,956**	**-**	**(180,711)**
Restated balance at 1 January 2018	**1,366,527**	**549,992**	**444,992**	**2,016**	**204,978**	**1,027,466**	**113,956**	**1,000,000**	**4,709,927**
Total comprehensive income for the period	**-**	**-**	**-**	**(12,393)**	**-**	**145,354**	**-**	**-**	**132,961**
Tier 1 capital notes coupon paid (note 14)	**-**	**-**	**-**	**-**	**-**	**(35,094)**	**-**	**-**	**(35,094)**
2017 cash dividends	**-**	**-**	**-**	**-**	**(102,489)**	**-**	**-**	**-**	**(102,489)**
2017 bonus shares issued	**102,489**	**-**	**-**	**-**	**(102,489)**	**-**	**-**	**-**	**-**
At 31 March 2018	**1,469,016**	**549,992**	**444,992**	**(10,377)**	**-**	**1,137,726**	**113,956**	**1,000,000**	**4,705,305**

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information. The review report of the independent auditor is set out on page 1.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the three month period ended 31 March 2018

1. Legal status and activities

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

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

The Bank has three fully owned subsidiary companies:

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

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

The condensed consolidated interim financial information for the three month period ended 31 March 2018 comprise the Bank and its subsidiaries (together referred to as 'the Group').

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

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

2. Disclosure policy

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

(a) Frequency and medium of disclosure

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

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

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

3. Basis of preparation

Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with IFRS, International Accounting Standard (IAS) 34: Interim Financial Reporting as issued by International Accounting Standard Board (IASB). This condensed consolidated interim financial information does not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2017.

4. Significant accounting policies

(a) Standards, amendments and interpretations

The accounting policies and methods of computation applied by the Group in the condensed consolidated interim financial information are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2017.

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2018

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 15, 'Revenue from contracts with customers' IFRS 15 replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. (IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers). **Amendments to IFRS 15, 'Revenue from contracts with customers'** These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.	1 January 2018
IFRS 9, 'Financial instruments' IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018

4. Significant accounting policies *(continued)*

(a) Standards, amendments and interpretations *(continued)*

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2018 *(continued)*

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

The Group has adhered to the requirements of IFRS 9 as at 1 January 2018 and has completed the measurement and classification of its financial assets and liabilities in accordance with business model as stipulated by IFRS 9. These classifications comprise FVOCI, FVTPL and amortised cost. The majority of financial assets and liabilities are classified as amortised cost in accordance with the Bank's business model except for certain investments which are classified as FVOCI and FVTPL instruments. The impact in equity on account of the change in classification in accordance with IFRS 9 amounted to **AED 6.1 million**.

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

The Group had elected not to re-state comparative periods and the difference between the previous carrying amounts and the new carrying amounts at the date of initial application (i.e. effective date of 01 January 2018) has been recorded in retained earnings at 1 January 2018.

The Group has reviewed and completed its assessment of the impairment provision and methodology in accordance with IFRS 9 requirements. The net incremental ECL under IFRS 9 as at 01 January 2018 was AED 186.8 million, comprising Stage 3 ECL shortfall of AED 300.8 million and Stage 1 and 2 surplus of AED 114.0 million. Accordingly, retained earnings at 1 January 2018 has been reduced by AED 300.8 million to recognize the incremental ECL under Stage 3 and a credit risk reserve has been established to reflect an additional provision of AED 114.0 million in excess of the collective impairment provision under IFRS 9, to comply with regulatory requirements.

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

The new standard also introduces expanded disclosure requirements and changes in presentation. These have been incorporated to the extent considered appropriate for the condensed consolidated interim financial information and full disclosures will be made in the consolidated financial statements of the Group for the year ending 31 December 2018.

There are no other IFRSs or IFRS IC interpretations including IFRS 15, that were effective for the first time for the financial year beginning on 1 January 2018 that have had a material impact on the Group's condensed consolidated interim financial information.

4. Significant accounting policies *(continued)*

(a) Standards, amendments and interpretations *(continued)*

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 01 January 2018 and not early adopted

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 16, 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	1 January 2019
Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation The Board has issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL). This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.	1 January 2019

The Group is taking measures to adhere to the aforementioned new standards and amendments to published standards or IFRS IC interpretations issued but not yet effective as relevant for the Group's financial year beginning on 1 January 2018.

There are no other applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2018 that would be expected to have a material impact on the condensed consolidated interim financial information of the Group.

4. Significant accounting policies *(continued)*

(b) Key accounting estimates and judgments

The preparation of the condensed consolidated interim financial information requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates. In preparing the condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended 31 December 2017.

(c) Financial instruments

Classification and measurement

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

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

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

Financial assets measured at fair value through other comprehensive income

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

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

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. Refer Note 8 for Investments and Islamic instruments at fair value through other comprehensive income.

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

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

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

4. Significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

Items at fair value through profit or loss

Items at fair value through profit or loss comprise:

- items held for trading;
- items specifically designated as fair value through profit or loss on initial recognition; and
- debt instruments with contractual terms that do not represent solely payments of principal and interest.

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

Financial instruments held for trading

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

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

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

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

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

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

4. Significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

Financial assets measured at amortised cost

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

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

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

Classification and measurement of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018:

Financial Assets	Previous classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
			AED'000	AED'000
Cash and balances with the UAE Central Bank	Loans and receivables	Amortised cost	6,916,739	6,916,739
Due from banks and financial institutions	Loans and receivables	Amortised cost	1,940,018	1,940,018
Investments and Islamic instruments	Available-for-sale	FVOCI	1,501,388	1,131,962
	Held-to-maturity	Amortised cost	408,326	783,857
	FVTPL	FVTPL	6,608	6,608
Loans and advances and Islamic financing receivables	Loans and receivables	Amortised cost	24,065,827	23,879,011
Other assets	Loans and receivables	Amortised cost	1,632,907	1,632,907
			36,471,813	36,291,102

4. Significant accounting policies *(continued)*

(d) Impairment of financial assets

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

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

No ECL is recognised on equity investments.

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

4. Significant accounting policies *(continued)*

(d) Impairment of financial assets *(continued)*

Determining the stage for impairment

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

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

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

5. Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2017.

(a) Fair value measurement principles

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

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

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

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

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

5. Financial risk management *(continued)*

(b) Fair value hierarchy

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

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

5. Financial risk management *(continued)*

(b) Fair value hierarchy *(continued)*

Pursuant to disclosure requirements of IFRS 7 Financial Instruments: Disclosures, the Group has disclosed the relevant information under the table below:

Fair value measurement – fair value hierarchy:

31 March 2018 (Unaudited)	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
Debt securities / Islamic sukuks	-	1,077,320	-	-
Other investments	-	661,519	6,571	-
Customer deposits and Islamic customer deposits	-	-	7,000	-
Forward foreign exchange contracts	16,305,428	-	3,928	-
Currency options	7,697,579	-	-	-
Interest rate derivatives	6,769,700	-	49	-
Commodity derivatives	714,688	-	4,701	-

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

(c) Management of liquidity risk

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

	31 March 2018 (Unaudited)			31 December 2017 (Audited)		
	Positive fair value AED'000	Negative fair value AED'000	Net AED'000	Positive fair value AED'000	Negative fair value AED'000	Net AED'000
Derivatives						
Forward foreign exchange contracts	19,370	15,442	3,928	25,428	30,804	(5,376)
Currency options	10,746	10,746	-	13,479	13,479	-
Interest rate derivatives	44,981	44,932	49	27,167	26,342	825
Commodity derivatives	23,430	18,729	4,701	19,436	19,512	(76)
	98,527	89,849	8,678	**85,510**	**90,137**	**(4,627)**

5. Financial risk management *(continued)*

(d) Financial assets and liabilities

Classification and measurement

The fair values and carrying values of the financial assets and liabilities at 31 March 2018 are shown below:

31 March 2018 (Unaudited)	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Allowances for impairment (ECL)	Carrying amount
Financial assets	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	-	-	5,597,713	-	5,597,713
Due from banks and financial institutions	-	-	1,556,201	(4,046)	1,552,155
Investments and Islamic instruments	107,126	1,638,284	624,386	(1,186)	2,368,610
Loans and advances and Islamic financing receivables	-	-	26,498,042	(1,288,494)	25,209,548
Other assets	-	-	1,662,197	-	1,662,197
Total financial assets	107,126	1,638,284	35,938,539	(1,293,726)	36,390,223
Financial liabilities					
Due to banks	-	-	954,464	-	954,464
Customer deposits and Islamic customer deposits	7,000	-	27,781,854	-	27,788,854
Term borrowings	-	-	1,263,155	-	1,263,155
Other liabilities	-	-	1,815,219	-	1,815,219
Total financial liabilities	7,000	-	31,814,692	-	31,821,692

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

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

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

5. Financial risk management *(continued)*

(d) Financial assets and liabilities *(continued)*

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

Financial Assets	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with the UAE Central Bank	6,916,739	-	-	6,916,739
Due from banks and financial institutions	1,940,018	-	-	1,940,018
Investments and Islamic instruments	408,326	375,531	-	783,857
Loans and advances and Islamic financing receivables	24,065,827	-	(186,816)	23,879,011
Other assets	1,632,907	-	-	1,632,907
Total financial assets measured at amortised cost	34,963,817	375,531	(186,816)	35,152,532
Fair value through profit or loss (FVTPL)				
Investments and Islamic instruments	6,608	-	-	6,608
Total financial assets measured at FVTPL	6,608	-	-	6,608
Fair value through other comprehensive income (FVOCI)				
Investments and Islamic instruments	1,501,388	(369,426)	-	1,131,962
Total financial assets measured at FVOCI	1,501,388	(369,426)	-	1,131,962

Further information on reclassification and impact on Investments and Islamic instruments portfolio has been disclosed in note 4 (a) to the condensed consolidated interim financial information.

5. Financial risk management *(continued)*

(d) Financial assets and liabilities *(continued)*

The following table contains an analysis of the credit risk exposure of financial assets, excluding loans and advances and Islamic financing receivables which are separately disclosed in note 9, which are subject to ECL. The gross carrying amount of financial assets below, including accrued interest, represents the Group's maximum exposure to credit risk on these assets:

	31 March 2018 (Unaudited)			
	ECL staging			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Due from banks and financial institutions				
Investment-grade	889,101	-	-	889,101
BBB & below	602,537	3,890	-	606,427
Unrated	61,019	-	-	61,019
	1,552,657	3,890	-	1,556,547
Allowances for impairment (ECL)	(3,933)	(113)	-	(4,046)
Carrying amount	1,548,724	3,777	-	1,552,501
Debt investments and Islamic instruments				
Investment-grade	2,089,053	-	-	2,089,053
BBB & below	18,715	-	-	18,715
Unrated	-	-	-	-
	2,107,768	-	-	2,107,768
Allowances for impairment (ECL)	(1,186)	-	-	(1,186)
Carrying amount	2,106,582	-	-	2,106,582

6. Cash and balances with the UAE Central Bank

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Cash on hand	222,620	346,101
Certificates of deposit (CDs) with the UAE Central Bank	4,000,000	4,150,000
Other balances with the UAE Central Bank (note 6.1)	1,375,093	2,420,638
	5,597,713	6,916,739

6.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of **AED 1,372.7 million** (31 December 2017: AED 1,274.3 million).

7. Due from banks and financial institutions

		31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
7.1	*By type*		
	Placements	394,456	405,475
	Current accounts / term deposits	364,032	364,500
	Bills discounted	797,713	1,170,043
		1,556,201	1,940,018
	Less: Allowances for impairment (ECL)	(4,046)	-
		1,552,155	1,940,018

As at 31 March 2018, current accounts / term deposits include cash collateral of AED 16.7 million (31 December 2017: AED 13.5 million) in respect of negative fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

7.2	*By geographical area*		
	Within UAE	131,324	814,277
	GCC countries	176,616	63,643
	Others	1,248,261	1,062,098
		1,556,201	1,940,018
	Less: Allowances for impairment (ECL)	(4,046)	-
		1,552,155	1,940,018

7.3	*By currency*		
	AED	436,831	411,820
	USD	913,160	1,337,632
	EUR	70,100	91,876
	GBP	6,652	6,354
	Others	129,458	92,336
		1,556,201	1,940,018
	Less: Allowances for impairment (ECL)	(4,046)	-
		1,552,155	1,940,018

8. Investments and Islamic instruments

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Investments at fair value through profit or loss (FVTPL) (note 8.1)	107,126	6,608
Investments at fair value through other comprehensive income (FVOCI)		
Debt securities / Islamic sukuks (note 8.2)	1,077,320	1,213,140
Other investments (note 8.3)	560,964	288,248
	1,638,284	**1,501,388**
Investments measured at amortised cost		
Debt securities / Islamic sukuks (note 8.2)	624,386	408,326
	2,369,796	**1,916,322**
Less: Allowances for impairment (ECL)	(1,186)	-
	2,368,610	**1,916,322**

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

8.2 Debt securities aggregating **AED 1,701.71 million** (31 December 2017: AED 1,621.5 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices of which are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions. The debt securities portfolio includes floating rate securities amounting to **AED 580.3 million** (31 December 2017: AED 463.9 million).

Debt securities include Islamic sukuks amounting to **AED 403.6 million** (31 December 2017: AED 477.7 million).

8.3 Other investments include shares purchased by the Bank, amounting to **AED 0.17 million** (31 December 2017: AED 0.3 million), during the period.

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

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Government	675,344	633,496
Banks and financial institutions	832,104	761,369
Others	862,348	521,457
	2,369,796	**1,916,322**
Less: Allowances for impairment (ECL)	(1,186)	-
	2,368,610	**1,916,322**

8. Investments and Islamic instruments *(continued)*

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

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Within UAE	319,744	225,662
GCC countries	192,366	189,890
Others	1,857,686	1,500,770
	2,369,796	1,916,322
Less: Allowances for impairment (ECL)	(1,186)	-
	2,368,610	1,916,322

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

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
AED	467	302
USD	2,244,279	1,787,610
EUR	90,330	121,794
JPY	34,720	6,616
	2,369,796	1,916,322
Less: Allowances for impairment (ECL)	(1,186)	-
	2,368,610	1,916,322

9. Loans and advances and Islamic financing receivables

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
9.1 Loans and advances and Islamic financing receivables by type:		
Overdrafts	1,912,022	1,895,865
Term loans	18,628,767	17,928,253
Loans against trust receipts	3,678,684	3,260,076
Bills discounted	1,955,829	1,832,941
Bills drawn under letters of credit	322,740	402,894
	26,498,042	25,320,029
Allowances for impairment (ECL) (note 9.3)	(1,288,494)	(1,254,202)
Net loans and advances and Islamic financing receivables	25,209,548	24,065,827

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

9.2. Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to **AED 3,384.7 million** (31 December 2017: AED 3,086.3 million) provided through a Shari'a compliant Islamic window, NBF Islamic.

9.3. Allowance for impairment losses on loans and advances and Islamic financing receivables

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Movement in allowances for impairment losses		
Balance at 1 January	1,254,202	1,204,901
Initial application of IFRS 9	186,816	-
Restated balance at 1 January	1,441,018	1,204,901
Net allowance for impairment losses	97,391	441,668
Written-off during the period / year	(249,915)	(392,367)
	1,288,494	1,254,202

9.4 Expected credit losses

The analysis of expected credit losses by stage for loans and advances and Islamic financing receivables, due from banks and financial institutions and debt investments and Islamic instruments is as follows:

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Expected credit losses – Lifetime ECL (Stage 3) / specific provision for doubtful debts	**1,025,156**	**812,851**
Expected credit losses - 12-months ECL (Stage 1)	119,596	-
Expected credit losses - Lifetime ECL (Stage 2)	148,974	-
Collective provision for doubtful debts - IAS 39	-	441,351
ECL / collective provision for doubtful debts	**268,570**	**441,351**
Total ECL / provision for doubtful debts	**1,293,726**	**1,254,202**

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

9.5 Expected credit losses analysis by type:

	31 March 2018 AED'000 Unaudited
On-balance sheet items – ECL (12-month ECL in Stage 1 or lifetime-ECL in Stage 2 or 3)	1,234,714
Off-balance sheet items – ECL (12-month ECL in Stage 1 or lifetime-ECL in Stage 2 or 3)	59,012
Total	1,293,726

9.6 Gross loans and advances and Islamic financing receivables

	31 March 2018 AED'000 Unaudited
12-months expected credit loss - Not credit impaired (Stage 1)	21,791,714
Lifetime expected credit losses - Not credit impaired (Stage 2)	3,248,253
Lifetime expected credit losses - Credit impaired (Stage 3)	1,458,075
Gross loans and advances and Islamic financing receivables	26,498,042

Risk mitigation, collateral and credit enhancements

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

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

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

Estimates of fair value are generally assessed on a periodic basis in accordance with the respective credit policies.

10. Contingent liabilities and commitments

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

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Contingent liabilities:		
– Letters of credit covering movement of goods	2,219,448	2,276,460
– Financial guarantees and other direct credit substitutes	832,015	838,366
– Bid bonds, performance bonds and other transaction related contingencies	4,720,177	4,662,456
	7,771,640	**7,777,282**
Commitments:		
– Undrawn irrevocable commitments – credit related	229,619	204,294
– Others	127,992	114,801
	357,611	**319,095**
	8,129,251	**8,096,377**

The total undrawn commitments which are revocable at the discretion of the Bank amount to **AED 14,688 million** (31 December 2017: AED 16,040 million). Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not necessarily represent expected future cash flows.

11. Due to banks and term borrowings

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
By type:		
Bilateral borrowings (note 11.1)	**863,155**	1,010,075
Sub-ordinated debt (note 11.2)	**400,000**	400,000
	1,263,155	**1,410,075**
Due to banks (note 11.3)	**954,464**	627,515
	2,217,619	**2,037,590**
By geographical area:		
Within UAE	**550,016**	390,624
GCC Countries	**330,570**	330,570
Others	**1,337,033**	1,316,396
	2,217,619	**2,037,590**

As at 31 March 2018, due to banks include cash collateral of **AED 10.4 million** (31 December 2017: AED 10.3 million), in respect of positive fair value of derivatives, in accordance with the CSA agreements with the interbank counterparties.

Due to banks include a Wakala borrowing amounting to **AED 73.5 million** (31 December 2017: nil) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

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

11.1 Bilateral borrowings comprise of several borrowings obtained from other banks and financial institutions as follows.

Loan no.	*Year obtained*	*Maturity*	*Interest rate*	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
1	2018	Mar-19	Libor + Margin	183,650	-
2	2017	Jul-20	Libor + Margin	183,650	183,650
3	2017	Mar-19	Libor + Margin	55,095	55,095
4	2017	Mar-19	Libor + Margin	55,095	55,095
5	2016	Jul-18	Libor + Margin	91,825	91,825
6	2016	May-18	Libor + Margin	183,650	183,650
7	2015	Nov-18	Libor + Margin	110,190	110,190
8	2017	Feb-18	Libor + Margin	-	36,730
9	2017	Mar-18	Libor + Margin	-	73,460
10	2016	Mar-18	Libor + Margin	-	110,190
11	2016	Feb-18	Libor + Margin	-	110,190
				863,155	1,010,075

Bilateral borrowings include a Murabaha borrowing amounting to **AED 183.7 million** (31 December 2017: 183.7 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

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

11.3 Due to banks include gold related borrowings amounting to **AED 431.3 million** (31 December 2017: AED 535.5 million) utilized to finance gold loans extended to customers on a matched basis.

12. Customer deposits and Islamic customer deposits

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
By type:		
Demand and margin deposits	9,086,646	8,583,973
Saving deposits	300,527	331,592
Fixed term and notice deposits	18,401,681	18,949,432
	27,788,854	27,864,997
By geographical area:		
Within UAE	25,299,833	25,258,446
GCC countries	1,766,786	2,029,631
Others	722,235	576,920
	27,788,854	27,864,997

12.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha and Wakala deposits amounting to **AED 3,479.4 million** (31 December 2017: AED 3,673.7 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

13. Shareholders' equity

13.1 *Share capital*

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Authorised, issued and fully paid:		
1,469,016,055 shares of AED 1 each (2017: 1,366,526,563 shares of AED 1 each)	1,469,016	1,366,527

13.2 *Proposed dividend*

The Board of Directors proposed a distribution of bonus shares of **7.5%** of share capital and cash dividend of 7.5% of share capital for the year ended 31 December 2017. This distribution was approved by the shareholders at the Annual General Assembly Meeting held in March 2018.

14. Tier 1 capital notes

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

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

15. Earnings per share

The calculation of earnings per share for the three month period ended 31 March 2018 is based on net profit of **AED 110.3 million** (31 March 2017: AED 91.0 million), after deduction of **AED 35.1 million** (31 March 2017: AED 35.1 million) of coupon payment on Tier 1 capital notes, divided by the weighted average number of shares of **1,469.0 million** (31 March 2017: 1,469.0 million shares after adjusting for bonus shares) outstanding during the period.

16. Related parties

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

16. Related parties *(continued)*

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
Statement of financial position items		
Loans and advances and Islamic financing receivables	2,059,220	1,903,745
Customer deposits and Islamic customer deposits	5,558,822	5,694,124
Investments and Islamic instruments	82,007	63,800
Acceptances	29,119	11,732
Tier 1 capital notes	690,000	690,000
Statement of changes in equity items		
Tier 1 capital notes coupon paid	23,856	47,995
Contingent liabilities		
Letters of credit	109,642	88,636
Financial guarantees and other direct credit substitutes	90,745	89,490
Transaction related contingencies	200,381	184,154

	31 March 2018 AED'000 Unaudited	31 March 2017 AED'000 Unaudited
Statement of income items		
Interest income and income from Islamic financing and investment activities	20,102	16,603
Interest expense and distribution to Islamic depositors	35,049	29,078
Other income	5,631	1,675
Key management compensation		
Salaries and other short-term benefits	4,619	5,436
Employee end of service benefits	137	144

No provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables given to related parties (31 December 2017: nil).

The loans and advances and Islamic financing receivables given to related parties amounting to **AED 2,059.2 million** (31 December 2017: AED 1,903.7 million) have been secured against collateral amounting to **AED 1,455.4 million** (31 December 2017: AED 1,452.4 million).

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

17. Capital adequacy ratio

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

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

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

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

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

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

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

Minimum transitional arrangements as per CBUAE

Capital element	Basel III 2018	Basel III 2017
Minimum common equity tier 1 ratio	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%
Capital conservation buffer	1.875%	1.25%

17. Capital adequacy ratio *(continued)*

	31 March 2018 AED'000 Unaudited	31 December 2017 AED'000 Audited
CET1 capital		
Share capital	1,469,016	1,366,527
Statutory reserve	549,992	549,992
Special reserve	444,992	444,992
Retained earnings	1,137,726	1,430,727
Accumulated other comprehensive income	(10,377)	(4,089)
CET1 total	**3,591,349**	**3,788,149**
Additional Tier 1 (AT1) Capital		
Tier 1 capital notes	1,000,000	1,000,000
Total Tier 1	**4,591,349**	**4,788,149**
Tier 2 Capital		
Subordinated facilities (note 11.2)	400,000	400,000
Collective impairment provision	369,112	365,345
Total Tier 2	**769,112**	**765,345**
Total capital base (a)	**5,360,461**	**5,553,494**

Risk weighted assets

	31 March 2018 Risk-weighted equivalent AED'000 Unaudited	31 December 2017 Risk-weighted equivalent AED'000 Audited
Credit risk	29,528,975	29,227,625
Market risk	27,686	30,893
Operational risk	2,464,327	2,464,327
Total risk weighted assets (b)	**32,020,988**	**31,722,845**
Capital adequacy ratio (a) / (b) - %	**16.74**	**17.5**
Tier 1 ratio - %	**14.34**	**15.1**
Common equity tier 1 ratio (CET 1) - %	**11.22**	**11.9**

17. Capital adequacy ratio *(continued)*

31 March 2018: Under Basel II, the capital adequacy, tier 1 and common equity ratios stood at **16.7%**, **14.4%** and **11.3%** respectively (31 December 2017 : 17.5%, 15.1% and 12.0% respectively). At the Annual General Assembly Meeting held on 18 March 2018, shareholders approved the conversion of additional tier 1 capital notes of AED 500 million into ordinary shares and authorized the Board of Directors for seeking all requisite regulatory approvals and execute conversion. The regulatory approvals are in progress and upon conversion, the CET1 ratio is estimated to improve by **1.6%.**

18. Cash and cash equivalents

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

	31 March 2018 AED'000 Unaudited	31 March 2017 AED'000 Unaudited
Cash on hand	222,620	296,122
Balances with the UAE Central Bank (note 18.1)	4,002,437	5,468,603
Due from banks with less than three months maturity	685,123	550,830
	4,910,180	6,315,555
Due to banks with less than three months maturity	(703,521)	(783,082)
	4,206,659	5,532,473

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

19. Segmental reporting

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

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

Business segments

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

Corporate and Institutional banking

Corporate and Institutional segments

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

19. Segmental reporting *(continued)*

Business banking segment

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

Retail banking

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

Treasury, Asset and Liability Management (ALM) and others

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

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

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

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

Three month period ended 31 March 2018 - AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	208,761	70,355	29,339	60,737	369,192
Segment operating cost	(58,185)	(30,684)	(24,655)	(7,691)	(121,215)
Segment operating profit	150,576	39,671	4,684	53,046	247,977
Net impairment losses	(74,392)	(18,265)	(4,734)	(5,232)	(102,623)
Profit / (loss)	76,184	21,406	(50)	47,814	145,354
31 March 2018 (Unaudited)					
Segment assets	21,955,359	3,208,867	2,458,572	8,981,836	36,604,634
Segment liabilities	23,906,268	3,345,610	2,874,015	1,773,436	31,899,329
Capital expenditure	-	-	-	12,478	12,478

19. Segmental reporting *(continued)*

Three month period ended 31 March 2017 - AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	188,747	62,458	26,419	46,998	324,622
Segment operating cost	(55,971)	(30,876)	(19,187)	(6,596)	(112,630)
Segment operating profit	**132,776**	**31,582**	**7,232**	**40,402**	**211,992**
Net impairment losses	(52,175)	(27,922)	(5,250)	(548)	(85,895)
Profit	**80,601**	**3,660**	**1,982**	**39,854**	**126,097**
31 December 2017 (Audited)					
Segment assets	21,219,850	3,229,924	2,394,208	9,812,394	36,656,376
Segment liabilities	24,298,793	3,116,875	2,746,039	1,604,031	31,765,738
Capital expenditure	-	-	-	38,359	38,359

20. Comparative figures

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