

National Bank of Fujairah PJSC
Condensed consolidated interim financial information
for the six month period ended
30 June 2021

Condensed consolidated interim financial information
For the six month period ended 30 June 2021

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF FUJAIRAH PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of National Bank of Fujairah PJSC (the “Bank”), which comprise the consolidated interim statement of financial position as at 30 June 2021 and the related consolidated interim statements of income and comprehensive income for the three month and six month periods then ended and consolidated interim statement of cash flows and changes in equity for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with 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 IAS 34.

Ernst & Young

Signed by:
Thodla Hari Gopal
Partner
Registration number: 689

18 July 2021

Dubai, United Arab Emirates


National Bank of Fujairah PJSC


Consolidated interim statement of financial position

As at 30 June 2021

	Notes	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
Assets			
Cash and balances with the UAE Central Bank	5	6,488,537	5,228,531
Due from banks and financial institutions	6	1,369,135	1,649,695
Investments and Islamic instruments	7	4,861,071	5,187,044
Loans and advances and Islamic financing receivables	8	25,275,779	24,844,211
Property and equipment and capital work-in-progress		376,362	368,378
Other assets		2,684,183	2,594,105
Total assets		41,055,067	39,871,964
Liabilities			
Due to banks	11	2,324,563	1,362,578
Customer deposits and Islamic customer deposits	12	29,829,588	29,766,101
Term borrowings	11	514,220	440,760
Other liabilities		2,698,229	2,630,266
Total liabilities		35,366,600	34,199,705
Equity			
Share capital	13.1	1,914,762	1,914,762
Statutory reserve		936,053	936,053
Special reserve		561,899	561,899
Fair value reserve		68,879	92,583
Impairment reserve	10.2	270,205	283,469
Retained earnings		651,119	597,943
Tier 1 capital securities	14	1,285,550	1,285,550
Total equity attributable to equity and securities holders of the Group		5,688,467	5,672,259
Total liabilities and equity		41,055,067	39,871,964

This condensed consolidated interim financial information was approved by the Board of Directors on 18 July 2021 and was signed on its behalf by:


Vince Cook
 Chief Executive Officer


Adnan Anwar
 Deputy Chief Executive Officer

The notes on pages 7 to 49 form an integral part of the condensed consolidated interim financial information. The independent auditor's review report of the Group condensed consolidated interim financial information is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of income – (Unaudited)

For the six month period ended 30 June 2021

	Notes	Three month period ended 30 June 2021 AED'000	Three month period ended 30 June 2020 AED'000	Six month period ended 30 June 2021 AED'000	Six month period ended 30 June 2020 AED'000
Interest income and income from Islamic financing and investment activities		309,396	374,220	611,830	812,382
Interest expense and distribution to Islamic depositors		(67,873)	(138,654)	(142,739)	(300,519)
Net interest income and net income from Islamic financing and investment activities		241,523	235,566	469,091	511,863
Fees and commission income		88,220	61,865	171,422	144,533
Fees and commission expense		(10,898)	(6,748)	(21,202)	(12,988)
Net fees and commission income		77,322	55,117	150,220	131,545
Foreign exchange and derivatives income		23,672	31,977	54,572	68,944
Income from investments and Islamic instruments		11,243	3,139	34,618	18,084
Other operating income		10,543	12,281	16,011	25,134
Operating income		364,303	338,080	724,512	755,570
Operating expenses					
Employee benefits expense		(66,937)	(71,268)	(135,700)	(148,654)
Depreciation and amortization		(6,503)	(5,227)	(13,228)	(15,155)
Other operating expenses		(36,976)	(33,487)	(73,630)	(70,376)
Total operating expenses		(110,416)	(109,982)	(222,558)	(234,185)
Operating profit before impairment losses		253,887	228,098	501,954	521,385
Net impairment losses	15	(219,682)	(238,437)	(425,741)	(456,293)
Profit / (loss) for the period		34,205	(10,339)	76,213	65,092
Earnings / (loss) per share (basic and diluted)	16	AED (0.002)	AED (0.025)	AED 0.020	AED 0.014

The notes on pages 7 to 49 form an integral part of the condensed consolidated interim financial information. The independent auditor's review report of the Group condensed consolidated interim financial information is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of comprehensive income – (Unaudited)

For the six month period ended 30 June 2021

	Three month period ended 30 June 2021 AED'000	Three month period ended 30 June 2020 AED'000	Six month period ended 30 June 2021 AED'000	Six month period ended 30 June 2020 AED'000
Profit / (loss) for the period	34,205	(10,339)	76,213	65,092
Other comprehensive income:				
Items that will not be reclassified subsequently to income statement:				
Movement in fair value reserve (equity instruments):				
- Net change in fair value	5,914	10,627	8,933	(3,868)
Items that may be reclassified subsequently to income statement:				
Movement in fair value reserve (debt instruments):				
- Net change in fair value	12,787	61,995	2,007	20,910
- Net change in allowances for impairment	2,356	(461)	768	(1,273)
- Net amount transferred to income statement	(13,818)	(811)	(35,412)	(16,112)
Other comprehensive income / (loss) for the period	7,239	71,350	(23,704)	(343)
Total comprehensive income for the period	41,444	61,011	52,509	64,749

The notes on pages 7 to 49 form an integral part of the condensed consolidated interim financial information. The independent auditor's review report of the Group condensed consolidated interim financial information is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of cash flows – (Unaudited)

For the six month period ended 30 June 2021

	Notes	Six month period ended 30 June 2021 AED'000	Six month period ended 30 June 2020 AED'000
Operating activities			
Profit for the period		76,213	65,092
Adjustments for :			
Depreciation and amortization		13,228	15,155
Provision for employee end of service and other long term benefits		7,994	7,808
Gain on disposal of property, plant and equipment		-	(9)
Net impairment losses	15	425,741	456,293
Net fair value gain on disposal of investments and Islamic Instruments		(30,548)	(21,956)
Net changes in fair value of investments at fair value through profit or loss		(4,070)	5,261
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		488,558	527,644
Payment of employee end of service and other long term benefits		(6,749)	(4,873)
Change in due from central bank		1,199,360	1,849,106
Change in due from banks and financial institutions		(20,297)	362,413
Change in loans and advances and Islamic financing receivables		(856,274)	232,300
Change in other assets		(90,078)	(270,939)
Change in due to banks		(91,975)	905,560
Change in customer deposits and Islamic customer deposits		63,487	976,430
Change in other liabilities		68,326	(82,301)
Net cash generated from operating activities		754,358	4,495,340
Investing activities			
Purchase of property and equipment and capital work-in-progress		(28,904)	(35,410)
Proceeds from sale of property and equipment		-	9
Purchase of investments and Islamic instruments		(1,398,992)	(2,134,939)
Proceeds from sale of investments and Islamic instruments		1,736,345	1,524,844
Net cash generated from / (used in) investing activities		308,449	(645,496)
Financing activities			
Proceeds from term borrowings		440,760	606,045
Repayment of term borrowings		(367,300)	(293,840)
Cash dividends paid		-	(185,002)
Tier 1 capital securities coupon paid		(37,763)	(37,763)
AT1 capital securities issuance cost		-	(1,028)
Net cash generated from financing activities		35,697	88,412
Net change in cash and cash equivalents		1,098,504	3,938,256
Cash and cash equivalents at beginning of the period		3,377,899	1,046,739
Cash and cash equivalents at end of the period	19	4,476,403	4,984,995

The notes on pages 7 to 49 form an integral part of the condensed consolidated interim financial information.
The independent auditor's review report of the Group condensed consolidated interim financial information is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of changes in equity – (Unaudited)

For the six month period ended 30 June 2021

AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Proposed dividends	Retained earnings	Impairment reserve	Tier 1 capital securities	Total
At 01 January 2020	1,850,012	936,053	561,899	31,409	249,752	1,072,810	363,069	1,285,550	6,350,554
Profit for the period	-	-	-	-	-	65,092	-	-	65,092
Other comprehensive loss for the period	-	-	-	(343)	-	(1,389)	-	-	(1,732)
Total comprehensive (loss) / income for the period	-	-	-	(343)	-	63,703	-	-	63,360
Excess provisions under UAE central bank requirements over IFRS 9	-	-	-	-	-	66,500	(66,500)	-	-
Tier 1 capital securities coupon paid	-	-	-	-	-	(37,763)	-	-	(37,763)
AT1 capital securities issuance cost	-	-	-	-	-	(1,028)	-	-	(1,028)
2019 cash dividends paid	-	-	-	-	(185,002)	-	-	-	(185,002)
2019 bonus shares issued	64,750	-	-	-	(64,750)	-	-	-	-
At 30 June 2020	1,914,762	936,053	561,899	31,066	-	1,164,222	296,569	1,285,550	6,190,121
At 01 January 2021	1,914,762	936,053	561,899	92,583	-	597,943	283,469	1,285,550	5,672,259
Profit for the period	-	-	-	-	-	76,213	-	-	76,213
Other comprehensive (loss) / income for the period	-	-	-	(23,704)	-	69	-	-	(23,635)
Total comprehensive (loss) / income for the period	-	-	-	(23,704)	-	76,282	-	-	52,578
Excess provisions under UAE central bank requirements over IFRS 9 (note 10.2)	-	-	-	-	-	13,264	(13,264)	-	-
Tier 1 capital securities coupon paid	-	-	-	-	-	(37,763)	-	-	(37,763)
Zakat impact (note 22)	-	-	-	-	-	1,393	-	-	1,393
At 30 June 2021	1,914,762	936,053	561,899	68,879	-	651,119	270,205	1,285,550	5,688,467

The notes on pages 7 to 49 form an integral part of the condensed consolidated interim financial information.

The independent auditor's review report of the Group condensed consolidated interim financial information is set out on page 1.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021

1. Legal status and activities

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

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

The Bank has two fully owned subsidiary companies:

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

NBF Capital 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 regulatory requirements. NBF Capital Limited was registered in the Dubai International Financial Centre (DIFC) as a private company 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 were arranging credit or deals in investments, advising on financial products or credit, and dealing in investments as agent, managing assets and managing collective investment fund.

The condensed consolidated interim financial information for the six month period ended 30 June 2021 comprise the Bank and its subsidiaries (together referred to as 'the Group').

"Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Group is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect."

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

2. 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).

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

2. Basis of preparation (continued)

These condensed consolidated interim financial information do not include all the information and disclosures required for full annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2020.

In preparing this condensed consolidated interim financial information, significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2020 except for the new judgements and estimates explained in Note 3.

3. Significant accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 01 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2021

Interbank offered rates ("IBORs") reform disclosure – Phase 2

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

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

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

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

National Bank of Fujairah PJSC

Notes to the consolidated financial statements (continued)

For the six month period ended 30 June 2021 (continued)

3. Significant accounting policies (continued)

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2021 (continued)

The majority of LIBOR and other IBORs are to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Group has maintained its momentum in tracking its exposure to IBORs, preparing its IT systems to accommodate the incoming Risk-Free Rates, amending or preparing contractual templates and communicating its progress with both the Regulators and its clients. IBOR reform exposes the Bank to various risks, which the project committee is managing and monitoring closely.

These risks include but are not limited to the following:

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

The project is led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations and Technology. The project provides regular progress updates to the Project sponsors. The Bank will achieve the readiness to transition significant portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the IBOR exposures prior to the Benchmark cessation.

The Group has set up a methodical framework to monitor the progress of transition from IBORs to new benchmark rates by reviewing its exposure and contracts on a regular basis. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR. The Group holds derivatives for trading and risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating legs that are indexed to various IBORs. The Group's derivative instruments are governed by International Swaps and Derivatives Association (ISDA) 2006 definitions.

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

The Group's exposure to Interest Rate Swaps designated in hedge accounting relationships at 30 June 2021 represents a nominal amount of AED 216.7 million. The objective of the majority of these hedges and consistent with the overall interest rate risk management strategy of NBF, is to reduce fluctuations from Interest rate risk.

National Bank of Fujairah PJSC

Notes to the consolidated financial statements (continued)

For the six month period ended 30 June 2021 (continued)

3. Significant accounting policies (continued)

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2021 (continued)

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 2020.

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 01 January 2021 that would be expected to have a material impact on the Group's condensed consolidated interim financial information.

4. 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 2020.

(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.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

4. 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.

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

Fair value measurement – fair value hierarchy:

30 June 2021 (Unaudited) AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuku	-	2,208,683	-	-
Other investments	-	1,050,557	3,000	-
Forward foreign exchange contracts	17,641,801	-	21,764	-
Currency options	5,046,308	-	583	-
Interest rate derivatives	6,659,665	-	5,438	-
Commodity derivatives	883,333	-	5,069	-

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

4. Financial risk management (continued)

(b) Fair value hierarchy (continued)

Fair value measurement – fair value hierarchy (continued)

31 December 2020 (Audited)

AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuk	-	3,055,916	-	-
Other investments	-	958,052	2,518	-
Forward foreign exchange contracts	13,375,109	-	13,799	-
Currency options	8,900,074	-	2,628	-
Interest rate derivatives	7,482,060	-	(3,503)	-
Commodity derivatives	144,147	-	452	-

(c) Management of liquidity risk

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

AED'000	30 June 2021 (Unaudited)				31 December 2020 (Audited)			
	Notional	Positive fair value	Negative fair value	Net	Notional	Positive fair value	Negative fair value	Net
Derivatives								
Forward foreign exchange								
Contracts	17,641,801	79,574	57,810	21,764	13,375,109	56,538	42,739	13,799
Currency options	5,046,308	20,862	20,279	583	8,900,074	42,875	40,247	2,628
Interest rate derivatives	6,659,665	146,032	140,594	5,438	7,482,060	197,462	200,965	(3,503)
Commodity derivatives	883,333	23,754	18,685	5,069	144,147	12,194	11,742	452
	30,231,107	270,222	237,368	32,854	29,901,390	309,069	295,693	13,376

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

4. 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 30 June 2021 are shown below:

30 June 2021 (Unaudited) AED'000	At fair value through profit or loss	At fair value through other comprehensive income	Amortized cost	Allowances for impairment (Expected Credit Losses - ECL)	Carrying amount
Financial assets					
Cash and balances with the UAE Central Bank	-	-	6,488,537	-	6,488,537
Due from banks and financial institutions	-	-	1,374,419	(5,284)	1,369,135
Investments and Islamic instruments	1,921	3,260,319	1,603,058	(4,227)	4,861,071
Loans and advances and Islamic financing receivables	-	-	27,588,177	(2,312,398)	25,275,779
Other assets	-	-	2,319,462	-	2,319,462
Total financial assets	1,921	3,260,319	39,373,653	(2,321,909)	40,313,984
Financial liabilities					
Due to banks	-	-	2,324,563	-	2,324,563
Customer deposits and Islamic customer deposits	-	-	29,829,588	-	29,829,588
Term borrowings	-	-	514,220	-	514,220
Other liabilities	-	-	2,349,200	129,514	2,478,714
Total financial liabilities	-	-	35,017,571	129,514	35,147,085

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

4. Financial risk management (continued)

(d) Financial assets and liabilities (continued)

31 December 2020 (Audited) AED'000	At fair value through profit or loss	At fair value through other comprehensive income	Amortized cost	Allowances for impairment (ECL)	Carrying amount
Financial assets					
Cash and balances with the UAE Central Bank	-	-	5,228,531	-	5,228,531
Due from banks and financial institutions	-	-	1,661,023	(11,328)	1,649,695
Investments and Islamic instruments	2,051	4,014,435	1,175,251	(4,693)	5,187,044
Loans and advances and Islamic financing receivables	-	-	27,058,018	(2,213,807)	24,844,211
Other assets	-	-	2,275,238	-	2,275,238
Total financial assets	2,051	4,014,435	37,398,061	(2,229,828)	39,184,719
Financial liabilities					
Due to banks	-	-	1,362,578	-	1,362,578
Customer deposits and Islamic customer deposits	-	-	29,766,101	-	29,766,101
Term borrowings	-	-	440,760	-	440,760
Other liabilities	-	-	2,292,232	121,969	2,414,201
Total financial liabilities	-	-	33,861,671	121,969	33,983,640

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

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

(e) Market risk

Derivative financial instruments

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

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

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

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

4. Financial risk management (continued)

(e) Market risk (continued)

Derivative financial instruments (continued)

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

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

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

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

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

Hedging instrument	Assets	Liabilities	Notional
30 June 2021 (Unaudited)			
AED'000			
Derivatives held as fair value hedges			
Interest rate swaps	-	7,858	216,707
Total derivative financial instruments	-	7,858	216,707

Hedging instrument

31 December 2020 (Audited)

AED'000

Derivatives held as fair value hedges

Interest rate swaps	-	10,989	216,707
Total derivative financial instruments	-	10,989	216,707

The carrying value of investments (hedged item) is AED 237.7 million (31 December 2020: AED 238.7 million) and the accumulated amount of fair value adjustments to investments (hedged item) is AED 7.9 million (31 December 2020: AED 11.0 million). The gains / losses attributable to the hedged risk for investments and on the interest rate swaps (hedging instrument) amounted to AED 7.9 million (31 December 2020: AED 11.0 million). All the hedges were fully effective for the period ended 30 June 2021 and the year ended 31 December 2020.

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

5. Cash and balances with the UAE Central Bank

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
Cash on hand	250,835	236,437
Certificates of deposit (CDs) with the UAE Central Bank (note 5.1)	5,222,569	3,600,000
Other balances with the UAE Central Bank (note 5.2)	1,015,133	1,392,094
	<u>6,488,537</u>	<u>5,228,531</u>

5.1 CDs with the UAE Central Bank include AED 220.0 million collateralized with the UAE Central Bank against the Targeted Economic Support Scheme (TESS).

5.2 Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 843.3 million (31 December 2020: AED 1,398.5 million).

6. Due from banks and financial institutions

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
6.1 By type		
Placements	198,683	355,274
Current accounts / term deposits	582,846	706,098
Bills discounted	592,890	599,651
	<u>1,374,419</u>	<u>1,661,023</u>
Less: Allowances for impairment (ECL) (note 10.1)	<u>(5,284)</u>	<u>(11,328)</u>
	<u>1,369,135</u>	<u>1,649,695</u>

As at 30 June 2021, current accounts / term deposits include cash collateral of AED 140.6 million (31 December 2020: AED 211.1 million) in respect of negative fair value of derivatives in accordance with the agreements with interbank counterparties.

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
6.2 By geographical area		
UAE	308,090	550,918
GCC	356,136	163,287
Europe	241,938	506,784
Americas	125,015	178,826
Others	343,240	261,208
	<u>1,374,419</u>	<u>1,661,023</u>
Less: Allowances for impairment (ECL) (note 10.1)	<u>(5,284)</u>	<u>(11,328)</u>
	<u>1,369,135</u>	<u>1,649,695</u>

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

6. Due from banks and financial institutions (continued)

6.3 By currency

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
AED	204,057	312,210
USD	732,272	987,515
EUR	78,422	116,379
GBP	32,239	8,093
XAU	1,129	17,715
Others	326,300	219,111
	1,374,419	1,661,023
Less: Allowances for impairment (ECL) (note 10.1)	(5,284)	(11,328)
	1,369,135	1,649,695

6.4 Based on external credit ratings

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
AA	2,634	146
AA-	53,854	82,498
A+	64,492	92,674
A	189,894	102,590
A-	289,511	440,660
BBB+	348,708	402,692
BBB	20,826	74,574
BBB- and below	404,500	465,189
	1,374,419	1,661,023
Less: Allowances for impairment (ECL) (note 10.1)	(5,284)	(11,328)
	1,369,135	1,649,695

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

6. Due from banks and financial institutions (continued)

6.5 Due from banks and financial institutions stage-wise analysis

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

AED'000	30 June 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	1,374,619	-	-	1,374,619
Allowances for impairment (ECL) (note 10.1)	(5,284)	-	-	(5,284)
Carrying amount	1,369,335	-	-	1,369,335

AED'000	31 December 2020 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	1,652,034	10,506	-	1,662,540
Allowances for impairment (ECL) (note 10.1)	(10,702)	(626)	-	(11,328)
Carrying amount	1,641,332	9,880	-	1,651,212

Majority of due from banks and financial institutions 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.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

7. Investments and Islamic instruments

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
Investments at fair value through profit or loss (FVTPL) (note 7.1)	1,921	2,051
Investments at fair value through other comprehensive income (FVOCI)		
Debt securities / Islamic sukuks (note 7.2)	2,208,683	3,055,916
Other investments / Islamic instruments (note 7.3)	1,051,636	958,519
	3,260,319	4,014,435
Investments measured at amortized cost		
Debt securities / Islamic sukuks (note 7.2)	1,603,058	1,175,251
	4,865,298	5,191,737
Less: Allowances for impairment (ECL) (note 10.1)	(4,227)	(4,693)
	4,861,071	5,187,044

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

7.2 Debt securities aggregating **AED 3,811.7 million** (31 December 2020: AED 4,231.2 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 819.5 million** (31 December 2020: AED 924.1 million).

Debt securities include Islamic sukuks amounting to **AED 832.7 million** (31 December 2020: AED 692.2 million).

7.3 Other investments include various funds whose fair values are based on the net asset values provided by the fund managers, amounting to **AED 833.4 million** (31 December 2020: AED 820.9 million) and additional tier 1 perpetual bonds of **AED 217.1 million** (31 December 2020: AED 137.1 million). **AED 0.6 million** shares were purchased by the Bank during the period (31 December 2020: nil).

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

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
Government	2,333,432	2,312,221
Banks and financial institutions	1,379,139	1,650,447
Others	1,152,727	1,229,069
	4,865,298	5,191,737
Less: Allowances for impairment (ECL) (note 10.1)	(4,227)	(4,693)
	4,861,071	5,187,044

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

7. Investments and Islamic instruments (continued)

7.5 By geography

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
UAE	1,482,609	1,597,980
GCC	807,170	977,473
Europe	1,104,649	1,160,935
Americas	728,289	712,609
Others	742,581	742,740
	4,865,298	5,191,737
Less: Allowances for impairment (ECL) (note 10.1)	(4,227)	(4,693)
	4,861,071	5,187,044

7.6 By currency

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
AED	1,079	467
USD	4,823,364	5,078,861
EUR	36,770	21,338
GBP	-	86,680
JPY	4,085	4,391
	4,865,298	5,191,737
Less: Allowances for impairment (ECL) (note 10.1)	(4,227)	(4,693)
	4,861,071	5,187,044

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

7. Investments and Islamic instruments (continued)

7.7 Based on external credit ratings

30 June 2021 (Unaudited) AED'000	Debt securities / Islamic sukuks	Other investments	Total
AAA	-	214,585	214,585
AA	1,043,291	-	1,043,291
AA-	655,396	154,337	809,733
A+	127,912	-	127,912
A	619,563	129,531	749,094
A-	705,083	258,244	963,327
BBB+	76,924	-	76,924
BBB	58,849	-	58,849
BBB- and below	524,723	296,860	821,583
Less: Allowances for impairment (ECL) (note 10.1)	(4,222)	(5)	(4,227)
	3,807,519	1,053,552	4,861,071

31 December 2020 (Audited) AED'000	Debt securities / Islamic sukuks	Other investments	Total
AAA	-	210,816	210,816
AA	1,013,643	-	1,013,643
AA-	884,809	151,206	1,036,015
A+	129,944	-	129,944
A	1,051,973	129,379	1,181,352
A-	876,257	260,824	1,137,081
BBB+	111,855	-	111,855
BBB- and below	162,686	208,345	371,031
Less: Allowances for impairment (ECL) (note 10.1)	(4,104)	(589)	(4,693)
	4,227,063	959,981	5,187,044

BBB- and below rating investments include unrated issuances by Government related entities and supranational institutions owned by governments.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

7. Investments and Islamic instruments (continued)

7.8 Debt investments and Islamic instruments stage-wise analysis

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

30 June 2021 (Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	4,568,437	-	-	4,568,437
Allowances for impairment (ECL) (note 10.1)	(4,227)	-	-	(4,227)
Carrying amount	4,564,210	-	-	4,564,210

31 December 2020 (Audited) AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	4,983,392	-	-	4,983,392
Allowances for impairment (ECL) (note 10.1)	(4,693)	-	-	(4,693)
Carrying amount	4,978,699	-	-	4,978,699

Debt investments and Islamic instruments 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.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

8. Loans and advances and Islamic financing receivables

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
8.1 By type		
Overdrafts	2,250,599	2,310,396
Term loans	20,062,536	20,117,170
Loans against trust receipts	3,181,509	2,747,245
Bills discounted	1,856,135	1,709,239
Bills drawn under letters of credit	237,398	173,968
Gross loans and advances and Islamic financing receivables	27,588,177	27,058,018
Allowances for impairment (ECL) (note 10.1)	(2,312,398)	(2,213,807)
Net loans and advances and Islamic financing receivables	25,275,779	24,844,211

8.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to AED 3,241.1 million (31 December 2020: AED 3,096.3 million) provided through a Shari'a compliant Islamic window, NBF Islamic.

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

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

30 June 2021

(Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	24,153,276	2,669,576	3,096,821	29,919,673
Allowances for impairment (ECL) (note 10.1)	(282,237)	(577,116)	(1,453,045)	(2,312,398)
Carrying amount	23,871,039	2,092,460	1,643,776	27,607,275

31 December 2020

(Audited) AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	22,781,653	3,360,911	3,034,312	29,176,876
Allowances for impairment (ECL) (note 10.1)	(265,072)	(563,113)	(1,385,622)	(2,213,807)
Carrying amount	22,516,581	2,797,798	1,648,690	26,963,069

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

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

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

Outstanding balance (Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2020	22,781,653	3,360,911	3,034,312	29,176,876
Transferred from Stage 1	(230,752)	201,775	28,977	-
Transferred from Stage 2	623,334	(800,627)	177,293	-
Transferred from Stage 3	-	9,839	(9,839)	-
Originated / (derecognized) during the period	979,041	(102,322)	188,812	1,065,531
Written-off during the period	-	-	(322,734)	(322,734)
Gross carrying amount – 30 June 2021	24,153,276	2,669,576	3,096,821	29,919,673

Outstanding balance (Audited) AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount – 31 December 2019	26,319,746	2,704,403	1,761,170	30,785,319
Transferred from Stage 1	(1,417,399)	1,115,557	301,842	-
Transferred from Stage 2	71,383	(969,169)	897,786	-
Transferred from Stage 3	-	5,758	(5,758)	-
Originated / (derecognized) during the year	(2,192,077)	504,362	484,375	(1,203,340)
Written-off during the year	-	-	(405,103)	(405,103)
Gross carrying amount - 31 December 2020	22,781,653	3,360,911	3,034,312	29,176,876

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

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

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

ECL (Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
ECL allowance - 31 December 2020	265,072	563,113	1,385,622	2,213,807
Transferred from Stage 1	(9,350)	16,922	10,857	18,429
Transferred from Stage 2	19,870	(67,996)	91,602	43,476
Transferred from Stage 3	-	791	(6,111)	(5,320)
Originated / (derecognized) during the period including changes in PDs / LGDs / EADs	6,645	64,286	297,190	368,121
Net allowance for impairment losses	17,165	14,003	393,538	424,706
Written-off during the period	-	-	(326,115)	(326,115)
ECL allowance – 30 June 2021	282,237	577,116	1,453,045	2,312,398

ECL (Audited) AED'000	Stage 1	Stage 2	Stage 3	Total
ECL allowance - 31 December 2019	220,482	271,207	801,551	1,293,240
Transferred from Stage 1	(13,593)	82,133	139,591	208,131
Transferred from Stage 2	1,393	(121,160)	401,811	282,044
Transferred from Stage 3	-	330	(2,551)	(2,221)
Originated / (derecognized) during the year including changes in PDs / LGDs / EADs	56,790	330,603	450,323	837,716
Net allowance for impairment losses	44,590	291,906	989,174	1,325,670
Written-off during the year	-	-	(405,103)	(405,103)
ECL allowance - 31 December 2020	265,072	563,113	1,385,622	2,213,807

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

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

8.6 Risk mitigation, credit quality, 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.

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

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

Risk grades of gross loans and advances and Islamic financing receivables

AED'000	30 June 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
RR 1-19				
Grade RR 1 - 17: Performing or normal	22,135,750	500,182	-	22,635,932
Grade RR 18 - 19: Watchlist and Other				
Loans Especially Mentioned (OLEM)	53,949	2,146,162	-	2,200,111
Total – RR1-19	22,189,699	2,646,344	-	24,836,043
RR 20-22: Substandard, doubtful and loss	-	-	2,752,134	2,752,134
Total	22,189,699	2,646,344	2,752,134	27,588,177

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

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

8.6 Risk mitigation, credit quality, collateral and credit enhancements (continued)

Risk grades of gross loans and advances and Islamic financing receivables

AED'000	31 December 2020 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
RR 1-19				
Grade RR 1 - 17: Performing or normal	21,007,308	1,458,268	-	22,465,576
Grade RR 18 - 19: Watchlist and Other				
Loans Especially Mentioned (OLEM)	36,064	1,836,435	-	1,872,499
Total – RR1-19	21,043,372	3,294,703	-	24,338,075
RR 20-22: Substandard, doubtful and loss	-	-	2,719,943	2,719,943
Total	21,043,372	3,294,703	2,719,943	27,058,018

9. Contingent liabilities and commitments

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

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
Contingent liabilities:		
– Letters of credit covering movement of goods	1,103,925	1,476,558
– Financial guarantees and other direct credit substitutes	651,407	760,223
– Bid bonds, performance bonds and other transaction related contingencies	4,601,617	4,895,109
	6,356,949	7,131,890
Commitments:		
– Undrawn irrevocable commitments – credit related	148,185	169,577
– Others	112,552	80,474
	260,737	250,051
	6,617,686	7,381,941

The total undrawn commitments which are revocable at the discretion of the Bank amount to AED 10,641 million (31 December 2020: AED 12,102 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.

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

9. Contingent liabilities and commitments (continued)

9.1 Off balance sheet exposures stage-wise analysis

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

	30 June 2021 (Unaudited)			
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	5,369,544	538,478	210,853	6,118,875
Allowances for impairment (ECL)	(19,400)	(3,487)	(106,627)	(129,514)
Carrying amount	5,350,144	534,991	104,226	5,989,361

	31 December 2020 (Audited)			
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	5,674,286	950,537	189,348	6,814,171
Allowances for impairment (ECL)	(19,058)	(7,155)	(95,756)	(121,969)
Carrying amount	5,655,228	943,382	93,592	6,692,202

9.2 Movement in the gross balance of off-balance sheet exposures

Outstanding balance (Unaudited) AED '000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2020	5,674,286	950,537	189,348	6,814,171
Transferred from Stage 1	(21,024)	20,699	325	-
Transferred from Stage 2	326,850	(357,317)	30,467	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period	(610,568)	(75,441)	(9,287)	(695,296)
Written-off during the period	-	-	-	-
Gross carrying amount - 30 June 2021	5,369,544	538,478	210,853	6,118,875

Outstanding balance (Audited) AED '000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2019	7,034,990	807,971	147,932	7,990,893
Transferred from Stage 1	(499,116)	497,750	1,366	-
Transferred from Stage 2	14,290	(94,557)	80,267	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(875,878)	(260,627)	(40,217)	(1,176,722)
Written-off during the year	-	-	-	-
Gross carrying amount - 31 December 2020	5,674,286	950,537	189,348	6,814,171

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

9. Contingent liabilities and commitments (continued)

9.3 Movement in the provision for impairment of off-balance sheet exposures

ECL – AED '000 (Unaudited)	Stage 1	Stage 2	Stage 3	Total
ECL allowances - 31 December 2020	19,058	7,155	95,756	121,969
Transferred from Stage 1	(191)	190	159	158
Transferred from Stage 2	1,290	(2,772)	15,286	13,804
Transferred from Stage 3	-	-	-	-
Originated / expired during the period including changes in PDs / LGDs / EADs	(757)	(1,086)	(4,574)	(6,417)
Net allowance for impairment losses	342	(3,668)	10,871	7,545
Written-off during the period	-	-	-	-
ECL allowances - 30 June 2021	19,400	3,487	106,627	129,514

ECL – AED '000 (Audited)	Stage 1	Stage 2	Stage 3	Total
ECL allowances - 31 December 2019	18,398	7,334	57,395	83,127
Transferred from Stage 1	(745)	3,078	687	3,020
Transferred from Stage 2	80	(1,174)	39,774	38,680
Transferred from Stage 3	-	-	-	-
Originated / expired during the year including changes in PDs / LGDs / EADs	1,325	(2,083)	(2,100)	(2,858)
Net allowance for impairment losses	660	(179)	38,361	38,842
Written-off during the year	-	-	-	-
ECL allowances – 31 December 2020	19,058	7,155	95,756	121,969

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to **AED 129.5 million**, (31 December 2020: AED 122.0 million) is classified under other liabilities.

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

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

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

AED' 000

30 June 2021 (Unaudited)

	Loans and advances and Islamic financing receivables and acceptances	Due from banks and financial institutions	Investments and Islamic instruments	Off-balance sheet exposures	Total	ECL rate
Stage 3	1,453,045	-	-	106,627	1,559,672	47.2%
Stage 2	577,116	-	-	3,487	580,603	18.1%
Stage 1	282,237	5,284	4,227	19,400	311,148	0.9%
	859,353	5,284	4,227	22,887	891,751	
Total ECL	2,312,398	5,284	4,227	129,514	2,451,423	5.8%
ECL rate	7.7%	0.4%	0.1%	2.1%		

AED '000

31 December 2020 (Audited)

	Loans and advances and Islamic financing receivables and acceptances	Due from banks and financial institutions	Investments and Islamic instruments	Off-balance sheet exposures	Total	ECL rate
Stage 3	1,385,622	-	-	95,756	1,481,378	46.0%
Stage 2	563,113	626	-	7,155	570,894	13.2%
Stage 1	265,072	10,702	4,693	19,058	299,525	0.9%
	828,185	11,328	4,693	26,213	870,419	
Total ECL	2,213,807	11,328	4,693	121,969	2,351,797	5.5%
ECL rate	7.6%	0.7%	0.1%	1.8%		

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

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

10.2 Impairment reserve

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

The following tables analyse the movement in the impairment reserve during the period ended 30 June 2021 and the year ended 31 December 2020:

AED'000 (Unaudited)	Impairment reserve - General	Impairment reserve - Specific	Impairment Reserve
At 01 January 2021	-	283,469	283,469
Change in general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	-	-	-
Reduction in excess specific provision under CBUAE over stage 3 requirements under IFRS 9	-	(13,264)	(13,264)
	-	-	-
At 30 June 2021	-	270,205	270,205

AED'000 (Audited)	Impairment reserve - General	Impairment reserve - Specific	Impairment reserve
At 01 January 2020	-	363,069	363,069
Change in general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	-	-	-
Reduction in excess specific provision under CBUAE over stage 3 requirements under IFRS 9	-	(79,600)	(79,600)
	-	(79,600)	(79,600)
At 31 December 2020	-	283,469	283,469

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

11. Due to banks and term borrowings

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
<i>By type:</i>		
Bilateral borrowings (note 11.1)	514,220	440,760
Due to banks (note 11.2)	1,332,550	417,729
Repurchase agreements with banks	992,013	944,849
	2,838,783	1,803,338
<i>By geographical area:</i>		
UAE	1,133,560	555,330
GCC	36,830	36,929
Europe	1,105,677	840,328
Americas	440,760	368,292
Others	121,956	2,459
	2,838,783	1,803,338

As at 30 June 2021, due to banks include cash collateral of AED 22.1 million (31 December 2020: AED 18.8 million), in respect of positive fair value of derivatives, in accordance with the agreements with the interbank counterparties.

The investment securities under repo agreements amounted to AED 1,169.3 million.

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

<i>Loan no.</i>	<i>Year obtained</i>	<i>Maturity</i>	<i>Interest rate</i>	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
1	2020	Mar-22	Libor + Margin	73,460	73,460
2	2020	Mar-21	Libor + Margin	-	183,650
3	2020	Mar-21	Libor + Margin	-	183,650
4	2021	Mar-22	Libor + Margin	73,460	-
5	2021	Mar-22	Libor + Margin	183,650	-
6	2021	Jun-22	Libor + Margin	183,650	-
				514,220	440,760

Murabaha borrowing of AED 183.7 million was outstanding as at 30 June 2021 (31 December 2020: Nil) for Shari'a - compliant Islamic window, NBF Islamic.

11.2 Due to banks include gold related borrowings amounting to AED 180.8 million (31 December 2020: AED 139.1 million) utilized to finance gold loans extended to customers on a matched basis.

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

12. Customer deposits and Islamic customer deposits

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
<i>By type:</i>		
Demand and margin deposits	11,311,332	10,653,409
Saving deposits	801,209	653,969
Fixed term and notice deposits (note 12.1)	17,717,047	18,458,723
	29,829,588	29,766,101
<i>By geographical area:</i>		
UAE	26,883,221	26,306,130
GCC	1,736,999	1,903,345
Europe	970,986	783,367
Americas	12,368	7,647
Others	226,014	765,612
	29,829,588	29,766,101

12.1 Fixed term and notice deposits include TESS deposit amounting to **AED 219.4 million** (31 December 2020: nil) provided by UAE Central Bank in order to contain the repercussions of the COVID-19 pandemic in the United Arab Emirates. The bank settled **AED 16.3 million** during July 2021 in line with the change of deferrals availed by its customers.

12.2 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha Wakala and Mudaraba deposits amounting to **AED 3,902.7 million** (31 December 2020: AED 3,012.7 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

13. Shareholders' equity

13.1 Share capital

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
<i>Authorised, issued and fully paid:</i>		
1,914,761,884 shares of AED 1 each (2020: 1,914,761,884 shares of AED 1 each)	1,914,762	1,914,762

13.2 Proposed dividend

The Board of Directors did not propose a dividend for the year ended 31 December 2020.

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

14. Tier 1 capital securities

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

15. Net impairment loss

	30 June 2021 AED'000 Unaudited	30 June 2020 AED'000 Unaudited
Loans and advances and Islamic financing receivables, acceptances and off balance sheet items	432,251	442,287
Due from banks and financial institutions	(6,044)	11,816
Investments and Islamic instruments	(466)	2,190
	<u>425,741</u>	<u>456,293</u>

16. Earnings / (loss) per share

The calculation of earnings per share for the six month period ended 30 June 2021 is based on net profit of **AED 38.5 million** after deduction of **AED 37.8 million** of additional Tier 1 capital securities coupon payment (30 June 2020: AED 26.3 million after deduction of AED 38.8 million of additional Tier 1 capital securities coupon payment and issuance cost) divided by the weighted average number of shares of **1,914.8 million** (30 June 2020: 1,914.8 million shares) outstanding during the period.

The calculation of loss per share for the three month period ended 30 June 2021 is based on net loss of **AED 3.6 million** (30 June 2020: net loss of AED 48.1 million), after deduction of **AED 37.8 million** (30 June 2020: AED 37.8 million) additional Tier 1 capital securities coupon payment divided by the weighted average number of shares of **1,914.8 million** (30 June 2020: 1,914.8 million shares) outstanding during the period.

17. 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:

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

17. Related parties (continued)

	30 June 2021 AED'000 Unaudited	31 December 2020 AED'000 Audited
Statement of financial position items		
Loans and advances and Islamic financing receivables	3,082,818	2,871,674
Customer deposits and Islamic customer deposits	7,406,941	7,186,566
Investments and Islamic instruments	156,325	165,876
Acceptances	61,063	22,504
Tier 1 capital securities	293,840	293,840
Statement of changes in equity items		
Tier 1 capital securities coupon paid	8,632	17,264
Contingent liabilities		
Letters of credit	58,627	68,547
Financial guarantees and other direct credit substitutes	65,202	89,238
Transaction related contingencies	272,344	282,634
	30 June 2021 AED'000 Unaudited	30 June 2020 AED'000 Unaudited
Statement of income items		
Interest income and income from Islamic financing and investment activities	31,867	36,486
Interest expense and distribution to Islamic depositors	63,451	90,250
Other income	6,593	9,151
Operating expenses	11,462	13,420
Key management compensation		
Salaries and other short-term benefits	7,247	8,354
Employee end of service benefits	481	300

No stage 3 provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables to related parties (31 December 2020: nil).

The loans and advances and Islamic financing receivables given to related parties amounting to AED 3,082.8 million (31 December 2020: AED 2,871.7 million) have been secured against collateral amounting to AED 1,729.2 million (31 December 2020: AED 1,704.6 million).

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

18. 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.

Pursuant to the UAE Central Bank standards pertinent to TESS issued during March and April 2020, the Regulator allowed banks to utilize the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020 until 31 December 2021.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

18. Capital adequacy ratio (continued)

AED'000	30 June 2021 Unaudited	31 December 2020 Audited
CET1 capital		
Share capital	1,914,762	1,914,762
Statutory reserve	936,053	936,053
Special reserve	561,899	561,899
Retained earnings	651,119	597,943
IFRS 9 transitional arrangement – ECL (stage 1 and 2) impact	363,250	341,918
Accumulated other comprehensive income	30,996	41,662
CET1 total	4,458,079	4,394,237
Additional Tier 1 (AT1) Capital		
Tier 1 capital securities	1,285,550	1,285,550
Total Tier 1	5,743,629	5,679,787
Tier 2 Capital		
Collective impairment provision	352,035	355,579
Total Tier 2	352,035	355,579
Total capital base (a)	6,095,664	6,035,366
Risk weighted assets		
Credit risk	28,162,809	28,446,320
Market risk	47,154	53,159
Operational risk	2,962,984	2,962,984
Total risk weighted assets (b)	31,172,947	31,462,463
Capital adequacy ratio (a) / (b) - %	19.6	19.2
Tier 1 ratio - %	18.4	18.1
Common equity tier 1 ratio (CET 1) - %	14.3	14.0

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

19. 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:

	30 June 2021 AED'000 Unaudited	30 June 2020 AED'000 Unaudited
Cash on hand	250,835	237,342
Balances with the UAE Central Bank (note 19.1)	4,938,542	3,611,209
Due from banks with less than three month maturity	582,846	1,910,692
	5,772,223	5,759,243
Due to banks with less than three month maturity	(1,295,820)	(774,248)
	4,476,403	4,984,995

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

20. Segmental reporting

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

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

Business segments

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

Corporate and Institutional banking

Corporate and Institutional segments

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

Business banking segment

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

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

20. Segmental reporting (continued)

Business segments (continued)

Retail banking

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

Treasury, Asset and Liability Management (ALM) and others

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

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

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

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

Six month period ended 30 June 2021 - AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	273,013	225,252	88,152	138,095	724,512
Segment operating cost	(71,849)	(92,036)	(43,814)	(14,859)	(222,558)
Segment operating profit	201,164	133,216	44,338	123,236	501,954
Net impairment losses	(385,727)	(28,299)	(13,754)	2,039	(425,741)
Profit / (loss)	(184,563)	104,917	30,584	125,275	76,213
30 June 2021 (Unaudited)					
Segment assets	18,996,154	5,874,631	3,450,815	12,733,467	41,055,067
Segment liabilities	22,963,784	6,096,239	3,551,593	2,754,984	35,366,600
Capital expenditure	-	-	-	-	28,904

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

20. Segmental reporting (continued)

Six month period ended 30 June 2020 - AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	296,535	222,790	64,342	171,903	755,570
Segment operating cost	(75,567)	(94,705)	(48,465)	(15,448)	(234,185)
Segment operating profit	220,968	128,085	15,877	156,455	521,385
Net impairment losses	(369,242)	(45,038)	(32,907)	(9,106)	(456,293)
Profit / (loss)	(148,274)	83,047	(17,030)	147,349	65,092
31 December 2020 (Audited)					
Segment assets	18,739,993	5,861,387	3,107,129	12,163,455	39,871,964
Segment liabilities	22,088,309	6,672,092	3,467,658	1,971,646	34,199,705
Capital expenditure	-	-	-	66,607	66,607

21. Impact of COVID-19 and macroeconomic variables with respect to ECL

The COVID-19 pandemic continues to have a profound impact globally causing disruption to business and economic activities. However, the current economic outlook depicts signs of a return to growth on the back of UAE government measures against the aftermath of COVID-19. The UAE Central bank, monetary authorities and governments across the world have announced various support measures and deployed multiple vaccines to counter the possible adverse implications.

NBF has been closely monitoring the situation and has successfully implemented remote working and use of digital solutions to ensure continuity of customer services and precautionary measures to ensure health and safety of all stakeholders. NBF has been proactively managing its liquidity and further strengthened its position to navigate through uncertainty and complexity with poise. As at 30 June 2021, NBF's advances to deposits ratio stood at 84.7% (2020: 83.5%), net stable funding ratio (NSFR) at 109.3 % (2020: 106.6%), and liquidity coverage ratio (LCR) at 383.2% (2020: 366.5%).

The Management Risk Committee ('MRC') and Central Credit Committee ('CCC') of the Group ensures governance over all critical decisions and requirements of the IFRS 9 standard and the related guidance and notices issued by the Regulator are complied and monitored with the appropriate involvement of key stakeholders including Risk, Credit, Finance and the Business divisions. These include key technical accounting and risk methodology decisions, management overlays, inputs and assumptions used for the determination of ECL and macro-economic factors consideration.

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Execution of principal decisions and results of reviews and monitoring are presented to the Board Audit Committee, Board Risk Committee and the Board, as NBF is committed to upholding the highest corporate governance standards.

NBF has considered the standards and joint guidance with respect to Targeted Economic Support Scheme (TESS) and the Treatment of IFRS 9 Expected Credit Loss Provisions in the UAE in the context of the COVID-19 crisis issued by the UAE Central Bank during April 2021 and April 2020 respectively. Pursuant to these standards and the joint guidance, NBF granted repayment holiday to its impacted customers and offered payment deferral relief in the context of COVID-19 under the TESS scheme or otherwise. Management at the time of assessing significant increase in credit risk have factored in the past and expected future performance of the customers benefitting from payment deferrals. NBF segregated its customers benefitting from payment deferrals into two groups as follows:

Group 1 – customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues, caused by the COVID-19 crisis; and

Group 2 – customers expected to be significantly impacted by the COVID-19 crises and are expected to face substantial deterioration in their creditworthiness triggering a migration to stage 2. In exceptional circumstances, stage 3 migration may have also been triggered where significant disruptions have threatened the long-term sustainability of the customers' business model causing the business to be permanently impaired.

The principal parameters for the grouping consideration included customers' account conduct, credit worthiness, economic sector, collateral, level of the COVID-19 impact, customers' supply chains and sales markets, severity of industry impacts and implications reflected in the operating performance, where available. NBF has been diligently monitoring its credit risks and the detailed review of all business segment portfolios was undertaken on these lines with the COVID-19 impacts cumulatively assessed and risk-matrixed to adequately protect the Group from any adversarial movements. The impact of the extension of loans and advances and Islamic financing receivables on account of COVID-19 has been assessed and considered in accordance with the requisites of IFRS 9 for modification of the terms of the facilities.

The uncertainties caused by COVID-19 have required NBF to update the inputs and assumptions used for the determination of ECL. NBF has considered the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. Forecast for macroeconomic variables has been modified and the assigned probabilities for downside and upside scenarios have been reverted to the pre-pandemic levels of 30%, given the economic recovery for H1 2021. The Group has considered the potential impacts of the current market situation in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on observable information.

The impacts remain sensitive to market fluctuations which the Group will continue to monitor and reflect appropriately in the ECL calculations. Therefore, actual results may be considerably different to those forecast. NBF on an on-going basis reviews prudently the staging and grouping decisions to ensure accurate reflection of the Group's assessment of these aspects at the reporting date.

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Stage-wise analysis of customers benefitting from payment deferrals

Pursuant to the Joint Guidance on the treatment of IFRS 9 ECL provisions in the UAE in the context of COVID-19 crisis issued by the UAE Central Bank during April 2020, NBF granted repayment holiday to some of its impacted customers. Of these, those related to TESS under standards issued during April 2021, deferred principal and accrued interest amounted to AED 203.1 million. The bank has availed the assistance under TESS and has offered payment deferral relief to selected customers. The bank settled **AED 16.3 million** during July 2021 in line with the change of deferrals availed by its customers.

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to loans and advances and Islamic financing receivables of the customers, who have been provided with such benefits, and the related ECL:

30 June 2021

AED'000	Stage 1	Stage 2	Stage 3	Total
Deferred amount	258,718	22,497	-	281,215
Allowances for impairment (ECL)	(3,023)	(4,863)	-	(7,886)
Carrying amount	255,695	17,634	-	273,329
Customer Count	54	17	-	71

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Notes to the condensed consolidated interim financial information

For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Stage-wise analysis of customers benefitting from payment deferrals (continued)

The following table contains an analysis of the credit risk exposure of loans and advances and Islamic receivables and acceptances and the relevant off-balance sheet exposures and the related ECL of the customers benefitting from payment deferrals. The gross carrying amount of loans and advances and Islamic receivables and acceptances, including accrued interest / profit, and off-balance sheet exposures below represents the Group's maximum credit exposure to customers benefitting from payment deferrals:

30 June 2021	Loans and advances and Islamic financing receivables and acceptances			Off-balance sheet exposures		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Outstanding balance	1,899,808	200,193	2,100,001	140,382	26,130	166,512
Allowances for impairment (ECL)	(33,060)	(12,722)	(45,782)	(1,030)	(104)	(1,134)
Carrying amount	1,866,748	187,471	2,054,219	139,352	26,026	165,378

31 December 2020	Loans and advances and Islamic financing receivables and acceptances			Off-balance sheet exposures		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
AED'000						
Outstanding balance	1,847,441	342,195	2,189,636	253,940	21,521	275,461
Allowances for impairment (ECL)	(31,672)	(17,164)	(48,836)	(1,069)	(258)	(1,327)
Carrying amount	1,815,769	325,031	2,140,800	252,871	21,263	274,134

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For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Analysis of customers benefitting from payment deferrals by type, groups and segments, with the related ECL

The following table contains an analysis of the outstanding balance of loans and advances and Islamic financing receivables and acceptances, including accrued interest / profit, of the customers benefitting from payment deferrals:

30 June 2021 AED'000	Corporate and institutional segments			Business banking segment		
	Group 1	Group 2	Total	Group 1	Group 2	Total
Loans and advances and Islamic financing receivables and acceptances	1,632,983	163,051	1,796,034	255,710	22,254	277,964
Allowances for impairment (ECL)	(28,683)	(9,967)	(38,650)	(4,159)	(2,412)	(6,571)
Carrying amount	1,604,300	153,084	1,757,384	251,551	19,842	271,393
Customer count			22			36

30 June 2021 AED'000	Retail banking			30 June 2021 AED'000	Consolidated		
	Group 1	Group 2	Total		Group 1	Group 2	Total
Overdrafts	26	24	50	Loans and advances and Islamic financing receivables and acceptances	1,892,527	207,474	2,100,001
Term loans	3,808	22,145	25,953	Allowances for impairment (ECL)	(32,907)	(12,875)	(45,782)
Allowances for impairment (ECL)	(65)	(496)	(561)	Carrying amount	1,859,620	194,599	2,054,219
Carrying amount	3,769	21,673	25,442	Customer count			71
Customer count			13				

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For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Analysis of customers benefitting from payment deferrals by type, groups and segments, with the related ECL (continued)

The following table contains an analysis of the related relevant off-balance sheet exposures of the customers benefitting from payment deferrals:

30 June 2021 AED'000	Corporate and institutional segments			Business banking segment		
	Group 1	Group 2	Total	Group 1	Group 2	Total
Off-balance sheet exposures	84,648	19,047	103,695	61,633	1,184	62,817
Allowances for impairment (ECL)	(704)	(76)	(780)	(346)	(8)	(354)
Carrying amount	83,944	18,971	102,915	61,287	1,176	62,463

Consolidated

30 June 2021

AED'000	Group 1	Group 2	Total
Off-balance sheet exposures	146,281	20,231	166,512
Allowances for impairment (ECL)	(1,050)	(84)	(1,134)
Carrying amount	145,231	20,147	165,378

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For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Movement in the gross balance of loans and advances and Islamic financing receivables and acceptances and off-balance sheet exposures of the customers benefitting from payment deferrals

AED'000	Loans and advances and Islamic financing receivables and acceptances				Off-balance sheet exposures			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount – 31 December 2020	1,847,441	342,195	-	2,189,636	253,940	21,521	-	275,461
Transferred from Stage 1	(27,418)	27,418	-	-	(18,842)	18,842	-	-
Transferred from Stage 2	101,268	(101,268)	-	-	7,446	(7,446)	-	-
Transferred from Stage 3	-	-	-	-	-	-	-	-
Originated / derecognized during the period	(21,483)	(68,152)	-	(89,635)	(102,162)	(6,787)	-	(108,949)
Gross carrying amount – 30 June 2021	1,899,808	200,193	-	2,100,001	140,382	26,130	-	166,512

The following table contains the movement in the gross balance of loans and advances and Islamic financing receivables and acceptances of the customers benefitting from payment deferrals by segment:

AED'000	Corporate and institutional segments				Business banking segment				Retail banking			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2020	1,635,966	311,429	-	1,947,395	197,655	17,394	-	215,049	13,820	13,372	-	27,192
Transferred from Stage 1	(17,362)	17,362	-	-	(493)	493	-	-	(9,562)	9,562	-	-
Transferred from Stage 2	99,776	(99,776)	-	-	1,492	(1,492)	-	-	-	-	-	-
Transferred from Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Originated / derecognized during the period	(79,660)	(71,701)	-	(151,361)	58,600	4,315	-	62,915	(423)	(766)	-	(1,189)
Gross carrying amount - 30 June 2021	1,638,720	157,314	-	1,796,034	257,254	20,710	-	277,964	3,835	22,168	-	26,003

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For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Movement in the gross balance of loans and advances and Islamic financing receivables and acceptances and off-balance sheet exposures of the customers benefitting from payment deferrals (continued)

The following table contains the movement in the related relevant off-balance sheet exposures of the customers benefitting from payment deferrals by segment:

AED'000	Corporate and institutional segments			Business banking segment		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Gross carrying amount - 31 December 2020	72,724	3,897	76,621	181,216	17,624	198,840
Transferred from Stage 1	(18,842)	18,842	-	-	-	-
Transferred from Stage 2	6,449	(6,449)	-	997	(997)	-
Originated / derecognized during the period	18,418	8,656	27,074	(120,580)	(15,443)	(136,023)
Gross carrying amount - 30 June 2021	78,749	24,946	103,695	61,633	1,184	62,817

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For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Movement in the provision for impairment of loans and advances and Islamic financing receivables and acceptances and off-balance sheet exposures of the customers benefitting from payment deferrals (continued)

	Loans and advances and Islamic financing receivables and acceptances					
AED'000	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
ECL allowance - 31 December 2020	31,672	17,164	48,836	1,069	258	1,327
Transferred from Stage 1	(330)	865	535	(129)	68	(61)
Transferred from Stage 2	1,459	(2,467)	(1,008)	108	(186)	(78)
Originated / (derecognized) during the period including changes in PDs / LGDs / EADs	259	(2,840)	(2,581)	(17)	(36)	(53)
Net allowance for impairment losses	1,388	(4,442)	(3,054)	(38)	(154)	(192)
Written-off during the period	-	-	-	-	-	-
ECL allowance – 30 June 2021	33,060	12,722	45,782	1,031	104	1,135

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For the six month period ended 30 June 2021 (continued)

21. Impact of COVID-19 and macroeconomic variables with respect to ECL (continued)

Sector-wise ECL analysis of Corporate and Institutional banking and Business banking segments' customers benefitting from payment deferrals

The following table contains the change in ECL by sector of Corporate and Institutional banking and Business banking segments:

AED'000	Corporate and institutional segments			Business banking segments		
	30-Jun-21	31-Dec-20	Change	30-Jun-21	31-Dec-20	Change
Trade	25,181	29,261	(4,080)	2,313	2,294	19
Construction	-	227	(227)	1,891	1,715	176
Manufacturing	7,455	8,155	(700)	2,411	1,284	1,127
Service industries	-	28	(28)	206	-	206
Real estate	3,627	4,377	(750)	104	124	(20)
Individuals	3,167	2,296	871	-	-	-
Total ECL	39,430	44,344	(4,914)	6,925	5,417	1,508

ECL analysis by product of Retail banking customers benefitting from payment deferrals

The following table contains the change in ECL by product of Retail banking:

AED'000	30-Jun-2021	31-Dec-2020	Change
Overdrafts	1	1	-
Term loans	560	401	159
Total ECL	561	402	159

22. Zakat

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

23. 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 information.