

National Bank of Fujairah PJSC
Condensed consolidated interim financial information
For the nine month period ended
30 September 2023

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Review report on 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 statement of financial position of National Bank of Fujairah PJSC ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 September 2023 and the related condensed consolidated interim statements of income and comprehensive income for the three month and nine month periods then ended and condensed consolidated interim statement of cash flows and changes in equity for the nine month period then ended and other explanatory information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers Limited Partnership Dubai Branch
25 October 2023

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

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Jacques Fakhoury, Douglas O'Mahony, Wassim El Afchal, Murad Alnsour, Rami Sarhan and Virendra Dhirajlal Lodhia are registered as practicing auditors with the UAE Ministry of Economy

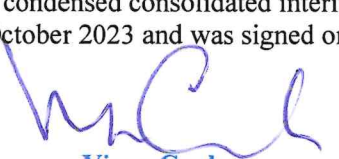
National Bank of Fujairah PJSC


Condensed consolidated interim statement of financial position

As at 30 September 2023

	Notes	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
Assets			
Cash and balances with the Central Bank of the UAE	5	10,308,119	9,718,922
Due from banks and financial institutions	6	2,266,403	2,347,975
Investments and Islamic instruments - fair value	7	2,761,708	2,699,357
Investments and Islamic instruments - amortised cost	7	4,650,161	3,650,561
Loans and advances and Islamic financing receivables	8	27,727,058	26,914,854
Acceptances		1,145,729	1,180,925
Other assets		603,258	665,544
Property and equipment		374,138	331,660
Intangibles		137,079	114,470
Total assets		49,973,653	47,624,268
Liabilities			
Due to banks	11,22	1,271,337	1,393,914
Customer deposits and Islamic customer deposits	12	37,217,839	35,735,934
Repurchase agreements	11,22	2,339,165	1,994,310
Term borrowings	11	367,300	440,760
Acceptances		1,147,712	1,184,696
Other liabilities		1,308,224	1,024,190
Total liabilities		43,651,577	41,773,804
Equity			
Share capital	13.1	2,120,000	2,000,000
Statutory reserve		981,616	981,616
Special reserve		607,462	607,462
Fair value reserve		(57,217)	(52,192)
Proposed bonus issue	13.2	-	120,000
Impairment reserve	10.2	82,637	168,201
Retained earnings		1,302,028	739,827
Tier 1 capital securities	14	1,285,550	1,285,550
Total equity attributable to equity and securities holders of the Group		6,322,076	5,850,464
Total liabilities and equity		49,973,653	47,624,268

This condensed consolidated interim financial information was approved by the Board of Directors on 25 October 2023 and was signed on its behalf by:


Vince Cook
Chief Executive Officer


Adnan Anwar
Deputy Chief Executive Officer


Brian Mulholland
Chief Financial Officer

The notes on pages 7 to 43 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

Condensed consolidated interim statement of income – (Unaudited)

For the nine month period ended 30 September 2023

		Three month period ended 30 September 2023 AED'000	Three month period ended 30 September 2022 AED'000	Nine month period ended 30 September 2023 AED'000	Nine month period ended 30 September 2022 AED'000
	Notes				
Interest income and income from Islamic financing and investment activities		764,275	462,607	2,130,680	1,124,187
Interest expense and distribution to Islamic depositors		(331,492)	(127,291)	(872,800)	(268,741)
Net interest income and net income from Islamic financing and investment activities		432,783	335,316	1,257,880	855,446
Fees and commission income		105,637	91,313	328,871	300,313
Fees and commission expense		(13,244)	(11,231)	(40,416)	(34,931)
Net fees and commission income		92,393	80,082	288,455	265,382
Foreign exchange and derivatives income		39,791	39,988	119,326	142,533
Income / (loss) from investments and Islamic instruments		684	(2,076)	(1,952)	19,203
Other operating income		7,040	8,091	21,971	37,301
Operating income		572,691	461,401	1,685,680	1,319,865
Operating expenses					
Employee benefits expense		(105,197)	(83,905)	(299,301)	(235,073)
Depreciation and amortization		(8,652)	(9,002)	(24,364)	(25,355)
Other operating expenses		(63,362)	(45,057)	(181,248)	(126,931)
Total operating expenses		(177,211)	(137,964)	(504,913)	(387,359)
Operating profit before impairment losses		395,480	323,437	1,180,767	932,506
Net impairment losses	15	(214,452)	(243,275)	(667,598)	(701,826)
Profit for the period		181,028	80,162	513,169	230,680
Earnings per share (basic and diluted)	16	AED 0.09	AED 0.04	AED 0.22	AED 0.09

The notes on pages 7 to 43 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

Condensed consolidated interim statement of comprehensive income – (Unaudited)

For the nine month period ended 30 September 2023

	Three month period ended 30 September 2023 AED'000	Three month period ended 30 September 2022 AED'000	Nine month period ended 30 September 2023 AED'000	Nine month period ended 30 September 2022 AED'000
Profit for the period	<u>181,028</u>	<u>80,162</u>	<u>513,169</u>	<u>230,680</u>
Other comprehensive income:				
Items that will not be reclassified subsequently to the statement of income:				
Movement in fair value reserve (equity instruments):				
- Net change in fair value	(644)	(590)	(315)	(11,931)
Items that may be reclassified subsequently to statement of income:				
Movement in fair value reserve (debt instruments):				
- Net change in fair value	(9,246)	(18,273)	(4,448)	(64,205)
- Net change in allowances for impairment	(1,128)	(45)	(1,365)	(2,457)
- Net amount transferred to the statement of income	<u>(1,478)</u>	<u>(10,853)</u>	<u>1,103</u>	<u>(18,181)</u>
Other comprehensive loss for the period	<u>(12,496)</u>	<u>(29,761)</u>	<u>(5,025)</u>	<u>(96,774)</u>
Total comprehensive income for the period	<u>168,532</u>	<u>50,401</u>	<u>508,144</u>	<u>133,906</u>

The notes on pages 7 to 43 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

Condensed consolidated interim statement of cash flows – (Unaudited)

For the nine month period ended 30 September 2023

		Nine month period ended 30 September 2023 AED'000	Restated Nine month period ended 30 September 2022 AED'000
	Notes		
Operating activities			
Profit for the period		513,169	230,680
Adjustments for:			
Depreciation and amortization		24,364	25,355
Provision for employee end of service and other long term benefits		16,356	18,236
Net impairment losses	15	667,598	701,826
Net fair value gain on disposal of investments and Islamic Instruments		917	(26,626)
Net changes in fair value of investments at fair value through profit or loss		1,035	7,423
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		1,223,439	956,894
Payment of employee end of service and other long term benefits		(10,197)	(9,720)
Change in due from the Central Bank of the UAE		(1,503,210)	(593,765)
Change in due from banks and financial institutions		(142,660)	(601,667)
Change in loans and advances and Islamic financing receivables		(1,493,742)	(2,675,357)
Change in acceptances and other assets		99,219	137,136
Change in due to banks	22	(122,577)	299,484
Change in repurchase agreements	22	344,855	643,457
Change in customer deposits and Islamic customer deposits		1,481,905	499,783
Change in acceptances and other liabilities		257,909	(37,334)
Net cash generated / (used in) operating activities		134,941	(1,381,089)
Investing activities			
Purchase of property, equipment and intangibles		(89,183)	(61,966)
Purchase of investments and Islamic instruments		(2,516,011)	(4,986,175)
Proceeds from sale and maturity of investments and Islamic instruments		1,442,472	3,353,610
Net cash used in investing activities		(1,162,722)	(1,694,531)
Financing activities			
Proceeds from term borrowings		367,300	440,760
Repayment of term borrowings		(440,760)	(514,220)
Tier 1 capital securities coupon paid		(37,763)	(37,763)
Net cash used in financing activities		(111,223)	(111,223)
Net change in cash and cash equivalents		(1,139,004)	(3,186,843)
Cash and cash equivalents at beginning of the period		4,274,798	5,521,456
Cash and cash equivalents at end of the period	19,22	3,135,794	2,334,613

The notes on pages 7 to 43 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

Condensed consolidated interim statement of changes in equity – (Unaudited)

For the nine month period ended 30 September 2023

AED'000	Share capital	Statutory reserve	Special reserve	Fair value reserve	Proposed bonus issue	Impairment reserve	Retained earnings	Tier 1 capital securities	Total
At 1 January 2022	2,000,000	947,578	573,424	44,041	-	189,674	635,396	1,285,550	5,675,663
Profit for the period	-	-	-	-	-	-	230,680	-	230,680
Other comprehensive loss for the period	-	-	-	(96,774)	-	-	6,179	-	(90,595)
Total comprehensive income for the period	-	-	-	(96,774)	-	-	236,859	-	140,085
Excess provisions under the Central Bank of the UAE requirements over IFRS 9 (note 10.2)	-	-	-	-	-	(21,212)	21,212	-	-
Tier 1 capital securities coupon paid	-	-	-	-	-	-	(37,763)	-	(37,763)
At 30 September 2022	2,000,000	947,578	573,424	(52,733)	-	168,462	855,704	1,285,550	5,777,985
At 1 January 2023	2,000,000	981,616	607,462	(52,192)	120,000	168,201	739,827	1,285,550	5,850,464
Profit for the period	-	-	-	-	-	-	513,169	-	513,169
Other comprehensive loss for the period	-	-	-	(5,025)	-	-	1,231	-	(3,794)
Total comprehensive income for the period	-	-	-	(5,025)	-	-	514,400	-	509,375
Excess provisions under the Central Bank of the UAE requirements over IFRS 9 (note 10.2)	-	-	-	-	-	(85,564)	85,564	-	-
Tier 1 capital securities coupon paid	-	-	-	-	-	-	(37,763)	-	(37,763)
2022 bonus shares issued	120,000	-	-	-	(120,000)	-	-	-	-
At 30 September 2023	2,120,000	981,616	607,462	(57,217)	-	82,637	1,302,028	1,285,550	6,322,076

The notes on pages 7 to 43 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 nine month period ended 30 September 2023

1. Legal status and activities

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

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

The Bank has two fully owned subsidiary companies:

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

The condensed consolidated interim financial information For the nine month period ended 30 September 2023 comprise the Bank and its subsidiaries (together referred to as 'the Group').

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

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

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the "Law") to enact a Federal corporate tax regime in the UAE. Furthermore, on 16 January 2023, a Cabinet Decision was published specifying the threshold of AED 375,000 of taxable income above which taxable entities would be subject to a 9% corporate tax rate.

The Corporate Tax regime will become effective for the accounting year beginning on or after 1 June 2023 hence for the Group it will be effective from 1 January 2024. Management acknowledges that a number of regulations with regards to the application of tax legislation are published and as such management will continue to monitor developments in order to assess the impact of corporate tax including any deferred tax implications on the Group.

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

2. Basis of preparation

Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standard (IAS) 34: Interim Financial Reporting as issued by International Accounting Standard Board (IASB).

This condensed consolidated interim financial information does not include all the information and disclosures required for full annual consolidated financial statements prepared in accordance with IFRS and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2022.

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 2022 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 2022, except for the adoption of the new applicable standards and amendments to the published standards effective as of 01 January 2023.

New and revised IFRS adopted in the condensed consolidated interim financial information

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in this interim financial information. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Interbank offered rates (IBOR) reform disclosure – Phase 2

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

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

3. Significant accounting policies (continued)

New and revised IFRS adopted in the condensed consolidated interim financial information (continued)

Interbank offered rates (IBOR) reform disclosure – Phase 2 (continued)

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

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

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

Further, details on IBOR reforms and related disclosures can be referred to in note 21 of this condensed consolidated interim financial information and note 5(f) of the Group's consolidated financial statements as at and for the year ended 31 December 2022.

Narrow-scope amendments and annual improvements to the IFRS

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

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

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

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

3. Significant accounting policies (continued)

New and revised IFRS adopted in the condensed consolidated interim financial information (continued)

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

The IASB amended IAS 1, 'Presentation of Financial Statements', to require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information.

To support this amendment, the Board also amended IFRS Practice Statement 2, 'Making Materiality Judgements', to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendment to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction

These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

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

Amendments to IAS 1 Presentation of financial statements – on classification

of liabilities - These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

Deferred until accounting periods starting not earlier than 1 January 2024

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

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2023 that would be expected to have a material impact on the Group's condensed consolidated interim financial information.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

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 2022.

(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 condensed 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 nine month period ended 30 September 2023 (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 September 2023 (Unaudited)

AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuku	2,175,322	2,175,322	-	-
Other investments	593,537	591,575	1,962	-
Forward foreign exchange contracts	18,528,791	-	36,143	-
Currency options	3,389,498	-	-	-
Interest rate derivatives	2,977,328	-	5,830	-
Commodity derivatives	656,991	-	2,718	-

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

4. Financial risk management (continued)

(b) Fair value hierarchy (continued)

Fair value measurement – fair value hierarchy (continued)

31 December 2022 (Audited)

AED'000	Notional	Level 1	Level 2	Level 3
Investments and Islamic instruments				
Debt securities / Islamic sukuk	2,114,364	2,114,364	-	-
Other investments	590,779	588,180	2,599	-
Forward foreign exchange contracts	16,114,003	-	5,825	-
Currency options	5,144,174	-	-	-
Interest rate derivatives	4,610,569	-	13,762	-
Commodity derivatives	656,836	-	2,655	-

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

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

(c) Management of liquidity risk

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

AED'000	30 September 2023 (Unaudited)				31 December 2022 (Audited)			
	Notional	Positive fair value	Negative fair value	Net	Notional	Positive fair value	Negative fair value	Net
Derivatives								
Forward foreign exchange Contracts	18,528,791	116,915	80,772	36,143	16,114,003	58,274	52,449	5,825
Currency options	3,389,498	4,780	4,780	-	5,144,174	36,478	36,478	-
Interest rate derivatives	2,977,328	64,635	58,805	5,830	4,610,569	79,701	65,939	13,762
Commodity derivatives	656,991	9,445	6,727	2,718	656,836	10,200	7,545	2,655
	25,552,608	195,775	151,084	44,691	26,525,582	184,653	162,411	22,242

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

4. Financial risk management (continued)

(d) Assets and liabilities

Classification and measurement

The fair values and carrying values of the assets and liabilities (financial and non-financial) are shown below:

30 September 2023 (Unaudited)	At fair value through profit or loss	At fair value through other comprehensive income	Amortized cost	Total
AED'000				
Assets				
Cash and balances with the Central Bank of the UAE	-	-	10,308,119	10,308,119
Due from banks and financial institutions	-	-	2,266,403	2,266,403
Investments and Islamic instruments	19,247	2,742,461	4,650,161	7,411,869
Loans and advances and Islamic financing receivables	-	-	27,727,058	27,727,058
Acceptances and other assets	-	-	1,748,987	1,748,987
Property and equipment and intangibles			511,217	511,217
Total assets	19,247	2,742,461	47,211,945	49,973,653
Liabilities				
Due to banks	-	-	1,271,337	1,271,337
Customer deposits and Islamic customer deposits	-	-	37,217,839	37,217,839
Repurchase agreements	-	-	2,339,165	2,339,165
Term borrowings	-	-	367,300	367,300
Acceptances and other liabilities	-	-	2,455,936	2,455,936
Total liabilities	-	-	43,651,577	43,651,577

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Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

4. Financial risk management (continued)

(d) Assets and liabilities (continued)

31 December 2022 (Audited)	At fair value through profit or loss	At fair value through other comprehensive income	Amortized cost	Total
AED'000				
Assets				
Cash and balances with the Central Bank of the UAE	-	-	9,718,922	9,718,922
Due from banks and financial institutions	-	-	2,347,975	2,347,975
Investments and Islamic instruments	19,884	2,679,473	3,650,561	6,349,918
Loans and advances and Islamic financing receivables	-	-	26,914,854	26,914,854
Acceptances and other assets	-	-	1,846,469	1,846,469
Property and equipment and intangibles	-	-	446,130	446,130
Total assets	19,884	2,679,473	44,924,911	47,624,268
Liabilities				
Due to banks	-	-	1,393,914	1,393,914
Customer deposits and Islamic customer deposits	-	-	35,735,934	35,735,934
Repurchase agreements	-	-	1,994,310	1,994,310
Term borrowings	-	-	440,760	440,760
Acceptances and other liabilities	-	-	2,208,886	2,208,886
Total liabilities	-	-	41,773,804	41,773,804

Fair value of investments and Islamic instruments measured at amortized cost amounted to AED 4,662.6 million (31 December 2022: AED 3,428.3 million). Management considers that the carrying amounts of all other assets and liabilities measured at amortised cost in this condensed consolidated financial information approximate their fair values.

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

(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');

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

4. Financial risk management (continued)

(e) Market risk (continued)

Derivative financial instruments

- (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 Group's exposure to interest rate swaps designated in hedge accounting relationships represents an amount of AED 192.5 million (31 December 2022: AED 88.9 million). The objective of the majority of these hedges is to reduce fluctuations from interest rate risk, and is consistent with the overall interest rate risk management strategy of NBF.

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 September 2023 (Unaudited)			
AED'000			
Derivatives held as fair value hedges			
Interest rate swaps	16	-	36,730
Derivatives held as cash flow hedges			
Interest rate swaps	-	3,066	155,740
Total derivative financial instruments	16	3,066	192,470

Hedging instrument

31 December 2022 (Audited)

AED'000

Derivatives held as fair value hedges

Interest rate swaps	1,812	-	88,902
Total derivative financial instruments	1,812	-	88,902

The carrying value of investments (hedged item) is AED 36.7 million (31 December 2022: AED 84.6 million) and the accumulated amount of fair value adjustments to investments (hedged item) is AED 0.02 million (31 December 2022: AED 1.81 million). The gains / losses attributable to the hedged risk for investments amounted to AED 0.02 million (31 December 2022: AED 1.81 million) and on the interest rate swaps (hedging instrument) amounted to AED 0.02 million (31 December 2022: AED 1.81 million). All the hedges were fully effective for the period ended 30 September 2023 and the year ended 31 December 2022.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

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

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
Cash on hand	316,570	381,485
Certificates of deposit (CDs) with the Central Bank of the UAE	7,937,947	7,005,860
Regulatory cash reserve deposit	2,053,602	2,331,577
	<u>10,308,119</u>	<u>9,718,922</u>

6. Due from banks and financial institutions

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
6.1 By type		
Placements	459,125	562,148
Current accounts / term deposits	1,224,320	1,052,446
Bills discounted	587,734	738,915
	<u>2,271,179</u>	<u>2,353,509</u>
Less: Allowances for impairment (ECL) (note 10.1)	(4,776)	(5,534)
	<u>2,266,403</u>	<u>2,347,975</u>

Placements include a Wakala placement amounting to AED 73.5 million (31 December 2022: AED 128.6 million) undertaken through a Shari'ah - compliant Islamic window, NBF Islamic.

Current accounts / term deposits include cash collateral of AED 71.4 million (31 December 2022: AED 174.9 million) in respect of negative fair value of derivatives, in accordance with the agreements with interbank counterparties.

Bills discounted represent bank risk discounting portfolio to support customers' trade business.

6.2 By currency

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
AED	166,222	426,995
USD	1,810,529	1,534,122
EUR	74,033	43,797
GBP	19,037	38,183
XAU	8,958	44,318
Others	192,400	266,094
	<u>2,271,179</u>	<u>2,353,509</u>
Less: Allowances for impairment (ECL) (note 10.1)	(4,776)	(5,534)
	<u>2,266,403</u>	<u>2,347,975</u>

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

6. Due from banks and financial institutions (continued)

6.3 By geographical area

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
UAE	233,399	521,979
GCC	581,458	429,296
Europe	301,700	594,865
Americas	804,049	497,778
Others	350,573	309,591
	2,271,179	2,353,509
Less: Allowances for impairment (ECL) (note 10.1)	(4,776)	(5,534)
	2,266,403	2,347,975

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
The dispersion of due from banks and financial institutions portfolio based on the redistribution of risk is set out below:		
UAE	202,378	451,764
GCC	560,318	419,516
Europe	914,839	848,764
Americas	362,117	238,385
Others	231,527	395,080
	2,271,179	2,353,509
Less: Allowances for impairment (ECL) (note 10.1)	(4,776)	(5,534)
	2,266,403	2,347,975

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

6. Due from banks and financial institutions (continued)

6.4 Based on external credit ratings

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
AA+	72	-
AA	5,853	2,132
AA-	27,380	21,563
A+	30,568	45,435
A	1,126,945	1,024,317
A-	4,299	-
BBB+	843,727	671,575
BBB	26,316	25,886
BBB- and below	206,019	562,601
	2,271,179	2,353,509
Less: Allowances for impairment (ECL) (note 10.1)	(4,776)	(5,534)
	2,266,403	2,347,975

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:

30 September 2023 (Unaudited)				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	2,289,048	-	-	2,289,048
Allowances for impairment (ECL) (note 10.1)	(4,776)	-	-	(4,776)
Carrying amount	2,284,272	-	-	2,284,272

31 December 2022 (Audited)				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	2,358,446	-	-	2,358,446
Allowances for impairment (ECL) (note 10.1)	(5,534)	-	-	(5,534)
Carrying amount	2,352,912	-	-	2,352,912

Due from banks and financial institutions were in stage 1 throughout the period. 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 nine month period ended 30 September 2023 (continued)

7. Investments and Islamic instruments

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
Investments at fair value through profit or loss (FVTPL) (note 7.1)	19,247	19,884
Investments at fair value through other comprehensive income (FVOCI)		
Debt securities / Islamic sukuks (note 7.2)	2,175,322	2,114,364
Other investments / Islamic instruments (note 7.3)	574,290	570,895
	2,749,612	2,685,259
Investments measured at amortized cost		
Debt securities / Islamic sukuks (note 7.2)	4,662,615	3,659,768
	7,431,474	6,364,911
Less: Allowances for impairment (ECL) (note 10.1)	(19,605)	(14,993)
	7,411,869	6,349,918

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 6,668.1 million** (31 December 2022: AED 5,659.8 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 363.1 million** (31 December 2022: AED 640.9 million).

Debt securities portfolio include Islamic sukuks amounting to **AED 783.3 million** (31 December 2022: AED 903.7 million).

Debt securities portfolio include additional tier 1 perpetual bonds of **AED 113.8 million** (31 December 2022: AED 114.3 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 573.2 million** (31 December 2022: AED 569.8 million). No shares were purchased by the Bank during the period (31 December 2022: nil).

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

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
Government	1,852,646	1,658,144
Banks and financial institutions	4,487,473	3,690,654
Others	1,091,355	1,016,113
	7,431,474	6,364,911
Less: Allowances for impairment (ECL) (note 10.1)	(19,605)	(14,993)
	7,411,869	6,349,918

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

7. Investments and Islamic instruments (continued)

7.5 By geographical area

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
UAE	1,448,398	1,172,483
GCC	395,236	341,104
Europe	2,641,319	2,277,662
Americas	1,924,605	1,829,205
Others	1,021,916	744,457
	7,431,474	6,364,911
Less: Allowances for impairment (ECL) (note 10.1)	(19,605)	(14,993)
	7,411,869	6,349,918
	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
The dispersion of investment portfolio based on the redistribution of risk is set out below:		
UAE	1,731,993	1,518,337
GCC	630,836	627,767
Europe	2,370,492	1,849,110
Americas	1,290,008	1,097,457
Others	1,408,145	1,272,240
	7,431,474	6,364,911
Less: Allowances for impairment (ECL) (note 10.1)	(19,605)	(14,993)
	7,411,869	6,349,918

Others include investments in multilateral development banks amounting to AED 381.7 million (31 December 2022: AED 522.9 million).

7.6 By currency

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
AED	239,518	144,375
USD	6,998,415	6,039,297
EUR	88,281	88,066
GBP	-	38,858
SGD	56,036	54,315
JPY	49,224	-
	7,431,474	6,364,911
Less: Allowances for impairment (ECL) (note 10.1)	(19,605)	(14,993)
	7,411,869	6,349,918

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

7. Investments and Islamic instruments (continued)

7.7 Based on external credit ratings

30 September 2023 (Unaudited) AED'000	Debt securities / Islamic sukuk	Other investments	Total
AAA	107,570	-	107,570
AA	775,991	-	775,991
AA-	893,330	-	893,330
A+	238,549	109,343	347,892
A	610,391	455,350	1,065,741
A-	1,712,375	-	1,712,375
BBB+	1,869,164	-	1,869,164
BBB	373,417	-	373,417
BBB- and below	257,150	28,844	285,994
Less: Allowances for impairment (ECL) (note 10.1)	(17,073)	(2,532)	(19,605)
	6,820,864	591,005	7,411,869

31 December 2022 (Audited) AED'000	Debt securities / Islamic sukuk	Other investments	Total
AAA	54,315	-	54,315
AA	564,091	-	564,091
AA-	776,285	107,096	883,381
A+	68,439	-	68,439
A	537,362	452,770	990,132
A-	1,601,141	-	1,601,141
BBB+	1,186,745	-	1,186,745
BBB	631,790	-	631,790
BBB- and below	353,964	30,913	384,877
Less: Allowances for impairment (ECL) (note 10.1)	(13,573)	(1,420)	(14,993)
	5,760,559	589,359	6,349,918

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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 September 2023 (Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	7,402,630	-	-	7,402,630
Allowances for impairment (ECL) (note 10.1)	(19,605)	-	-	(19,605)
Carrying amount	7,383,025	-	-	7,383,025
 31 December 2022 (Audited) AED'000	 Stage 1	 Stage 2	 Stage 3	 Total
Outstanding balance	6,333,999	-	-	6,333,999
Allowances for impairment (ECL) (note 10.1)	(14,993)	-	-	(14,993)
Carrying amount	6,319,006	-	-	6,319,006

Debt investments and Islamic instruments are in stage 1 throughout the period. 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 nine month period ended 30 September 2023 (continued)

8. Loans and advances and Islamic financing receivables

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
8.1 By type		
Overdrafts	2,007,571	2,153,354
Term loans	21,000,421	20,081,844
Loans against trust receipts	4,040,462	4,023,558
Bills discounted	2,453,525	2,292,094
Bills drawn under letters of credit	224,599	386,239
Gross loans and advances and Islamic financing receivables	29,726,578	28,937,089
Allowances for impairment (ECL) (note 10.1)	(1,999,520)	(2,022,235)
Net loans and advances and Islamic financing receivables	27,727,058	26,914,854

8.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to AED 3,878.4 million (31 December 2022: AED 3,190.7 million) provided through a Shari'ah compliant Islamic window, NBF Islamic.

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

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

30 September 2023

(Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	25,841,470	2,544,367	1,938,606	30,324,443
Allowances for impairment (ECL) (note 10.1)	(216,036)	(568,178)	(1,215,306)	(1,999,520)
Carrying amount	25,625,434	1,976,189	723,300	28,324,923

31 December 2022

(Audited) AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	24,863,960	2,317,638	2,430,987	29,612,585
Allowances for impairment (ECL) (note 10.1)	(233,100)	(440,294)	(1,348,841)	(2,022,235)
Carrying amount	24,630,860	1,877,344	1,082,146	27,590,350

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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

Outstanding balance (Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2022	24,863,960	2,317,638	2,430,987	29,612,585
Transferred from Stage 1	(543,180)	364,872	178,308	-
Transferred from Stage 2	173,255	(394,131)	220,876	-
Transferred from Stage 3	-	123,546	(123,546)	-
Originated / (derecognized) during the period	1,347,435	132,442	(187,966)	1,291,911
Written-off during the period	-	-	(580,053)	(580,053)
Gross carrying amount – 30 September 2023	25,841,470	2,544,367	1,938,606	30,324,443

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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

ECL (Unaudited) AED'000	Stage 1	Stage 2	Stage 3	Total
ECL allowance - 31 December 2022	233,100	440,294	1,348,841	2,022,235
Transferred from Stage 1	(12,655)	28,522	88,891	104,758
Transferred from Stage 2	3,330	(30,624)	110,898	83,604
Transferred from Stage 3	-	520	(18,161)	(17,641)
Originated / (derecognized) during the period including changes in PDs / LGDs / EADs	(7,739)	129,466	264,890	386,617
Net allowance for impairment losses	(17,064)	127,884	446,518	557,338
Written-off during the period	-	-	(580,053)	(580,053)
ECL allowance – 30 September 2023	216,036	568,178	1,215,306	1,999,520

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

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

8.6 Risk mitigation, credit quality, collateral and credit enhancements

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

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

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

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

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

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

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

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

Risk grades of gross loans and advances and Islamic financing receivables

	30 September 2023 (Unaudited)			
AED'000	Stage 1	Stage 2	Stage 3	Total
RR 1-19				
Grade RR 1 – 17: Performing	25,601,129	368,286	-	25,969,415
Grade RR 18 – 19: Watchlist	12,106	2,133,406	-	2,145,512
Total – RR 1-19	25,613,235	2,501,692	-	28,114,927
RR 20-22: Non-performing	-	-	1,611,651	1,611,651
Total	25,613,235	2,501,692	1,611,651	29,726,578

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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 (continued)

AED'000	31 December 2022 (Audited)			Total
	Stage 1	Stage 2	Stage 3	
RR 1-19				
Grade RR 1 – 17: Performing	24,626,807	378,651	-	25,005,458
Grade RR 18 - 19: Watchlist	27,141	1,912,730	-	1,939,871
Total – RR 1-19	24,653,948	2,291,381	-	26,945,329
RR 20-22: Non-performing	-	-	1,991,760	1,991,760
Total	24,653,948	2,291,381	1,991,760	28,937,089

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 interim statement of financial position. All credit related commitments are unconditionally cancellable / revocable at the discretion of the Group except for the amounts mentioned in the following table:

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
Contingent liabilities:		
– Letters of credit covering movement of goods	1,421,605	1,266,531
– Financial guarantees and other direct credit substitutes	955,037	827,984
– Bid bonds, performance bonds and other transaction related contingencies	4,983,315	4,303,375
	7,359,957	6,397,890
Commitments:		
– Undrawn irrevocable commitments – credit related	121,782	90,022
– Commitments for future capital expenditure	144,562	126,734
	266,344	216,756
	7,626,301	6,614,646

The total undrawn commitments which are revocable at the discretion of the Bank amount to **AED 15,620.0 million** (31 December 2022: AED 13,838.0 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.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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 September 2023 (Unaudited)				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	6,703,024	292,773	106,599	7,102,396
Allowances for impairment (ECL) (note 10.1)	(20,746)	(3,507)	(60,300)	(84,553)
Carrying amount	6,682,278	289,266	46,299	7,017,843

31 December 2022 (Audited)				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	5,820,222	186,595	154,197	6,161,014
Allowances for impairment (ECL) (note 10.1)	(19,364)	(5,684)	(75,561)	(100,609)
Carrying amount	5,800,858	180,911	78,636	6,060,405

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 2022	5,820,222	186,595	154,197	6,161,014
Transferred from Stage 1	(131,239)	123,531	7,708	-
Transferred from Stage 2	6,972	(8,137)	1,165	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the period	1,007,069	(9,216)	(56,471)	941,382
Written-off during the period	-	-	-	-
Gross carrying amount - 30 September 2023	6,703,024	292,773	106,599	7,102,396

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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 2022	19,364	5,684	75,561	100,609
Transferred from Stage 1	(678)	1,143	5,984	6,449
Transferred from Stage 2	30	(139)	554	445
Transferred from Stage 3	-	-	-	-
Originated / expired during the period including changes in PDs / LGDs / EADs	2,030	(3,181)	(21,799)	(22,950)
Net allowance for impairment losses	1,382	(2,177)	(15,261)	(16,056)
Written-off during the period	-	-	-	-
ECL allowances - 30 September 2023	20,746	3,507	60,300	84,553

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

The provision for ECL against the off-balance sheet exposures disclosed above is classified under other liabilities.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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, due from banks and financial institutions, debt investments and Islamic instruments, acceptances and other assets and off-balance sheet items is as follows:

AED' 000

30 September 2023 (Unaudited)

	Loans and advances and Islamic financing receivables	Due from banks and financial institutions	Investments and Islamic instruments	Acceptances and other assets	Off-balance sheet exposures	Total	ECL rate
Stage 3	1,215,306	-	-	2,700	60,300	1,278,306	62.2%
Stage 2	568,178	-	-	36	3,507	571,721	20.1%
Stage 1	216,036	4,776	19,605	1,947	20,746	263,110	0.6%
	784,214	4,776	19,605	1,983	24,253	834,831	4.4%
Total ECL	1,999,520	4,776	19,605	4,683	84,553	2,113,137	4.4%
ECL rate	6.6%	0.2%	0.3%	0.4%	1.2%		

AED' 000

31 December 2022 (Audited)

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

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

10.2 Impairment reserve

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

The following tables analyse the movement in the impairment reserve during the period ended 30 September 2023 and the year ended 31 December 2022:

AED'000 (Unaudited)	Impairment reserve - General	Impairment reserve - Specific	Impairment Reserve
At 01 January 2023	-	168,201	168,201
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	-	(85,564)	(85,564)
	-	(85,564)	(85,564)
At 30 September 2023	-	82,637	82,637

AED'000 (Audited)	Impairment reserve - General	Impairment reserve - Specific	Impairment reserve
At 01 January 2022	-	189,674	189,674
Change in general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	-	-	-
Reduction in excess specific provision under CBUAE over stage 3 requirements under IFRS 9	-	(21,473)	(21,473)
	-	(21,473)	(21,473)
At 31 December 2022	-	168,201	168,201

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

11. Due to banks, repurchase agreements and term borrowings

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
<i>By type:</i>		
Due to banks (note 11.2)	1,271,337	1,393,914
Repurchase agreements	2,339,165	1,994,310
Term borrowings (note 11.1)	367,300	440,760
	3,977,802	3,828,984
<i>By geographical area:</i>		
UAE	1,830,664	1,268,254
GCC	183,819	3,597
Europe	1,859,651	1,818,218
Americas	-	295,052
Others	103,668	443,863
	3,977,802	3,828,984

Due to banks include cash collateral of AED 58.4 million (31 December 2022: AED 74.3 million), in respect of positive fair value of derivatives, in accordance with the agreements with interbank counterparties.

Due to banks include a Wakala borrowing amounting to AED 275.0 million (31 December 2022: AED 19.7 million) undertaken through a Shari'ah - compliant Islamic window, NBF Islamic.

The investment securities under repo agreements amounted to AED 2,384.9 million (31 December 2022: AED 2,081.0 million).

11.1 Term borrowings comprise of several bilateral borrowings obtained from other banks and financial institutions as follows:

Loan no.	Year obtained	Maturity	Interest rate	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
1	2023	Sep-26	SOFR + Margin	183,650	-
2	2023	Aug-27	SOFR + Margin	183,650	-
3	2022	Jul-23	SOFR + Margin	-	183,650
4	2022	Apr-23	SOFR + Margin	-	110,190
5	2022	Apr-23	SOFR + Margin	-	91,825
6	2022	May-23	SOFR + Margin	-	55,095
				367,300	440,760

11.2 Due to banks include gold related borrowings amounting to AED 261.4 million (31 December 2022: AED 469.1 million) utilized to finance gold loans extended to customers on a matched basis.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

12. Customer deposits and Islamic customer deposits

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
<i>By type:</i>		
Demand and margin deposits	14,603,289	15,530,718
Saving deposits	552,802	642,221
Fixed term and notice deposits	22,061,748	19,562,995
	37,217,839	35,735,934
<i>By geographical area:</i>		
UAE	35,819,752	33,171,083
GCC	370,986	1,379,432
Europe	894,350	1,031,666
Americas	38,025	11,234
Others	94,726	142,519
	37,217,839	35,735,934

12.1 Islamic customer deposits undertaken through a Shari'ah - compliant Islamic window, NBF Islamic.

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
<i>By type:</i>		
Qard Islamic current accounts	598,702	387,430
Murabaha deposits	239,764	1,048,740
Wakala deposits	3,366,062	2,680,545
Mudaraba deposits	45,668	41,898
	4,250,196	4,158,613

13. Shareholders' equity

13.1 Share capital

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
<i>Authorised, issued and fully paid:</i>		
2,120,000,000 shares of AED 1 each (2022: 2,000,000,000 shares of AED 1 each)	2,120,000	2,000,000

13.2 Proposed cash dividends and bonus issue

The Board of Directors proposed a distribution of bonus shares of 6.0% of share capital for the year ended 31 December 2022. This distribution was approved by the shareholders at the Annual General Assembly Meeting held in March 2023.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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 which has been classified as equity in accordance with IAS 32: Financial Instruments – Classification. These securities are perpetual, subordinated and unsecured. The Bank can elect not to pay a coupon at its own discretion and has an option to call back the securities in addition to allowing the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of CBUAE. The transaction costs relating to the issuance were accounted for as a deduction from equity.

15. Net impairment loss

	30 September 2023 AED'000 Unaudited	30 September 2022 AED'000 Unaudited
Loans and advances and Islamic financing receivables, acceptances, other assets and off balance sheet items	671,451	690,239
Due from banks and financial institutions	758	1,545
Investments and Islamic instruments	(4,611)	10,042
	<u>667,598</u>	<u>701,826</u>

16. Earnings per share

The calculation of earnings per share for the nine month period ended 30 September 2023 is based on net profit of AED 475.4 million after deduction of AED 37.8 million of additional Tier 1 capital securities coupon payment (30 September 2022: AED 192.9 million after deduction of AED 37.8 million of additional Tier 1 capital securities coupon payment) divided by the weighted average number of shares of 2,120 million (30 September 2022: 2,120 million shares after adjusting for bonus shares) outstanding during the period.

The calculation of earnings per share for the three month period ended 30 September 2023 is based on net profit of AED 181.0 million (30 September 2022: net profit of AED 80.2 million), divided by the weighted average number of shares of 2,120 million (30 September 2022: 2,120 million shares after adjusting for bonus 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 information, which predominantly relate to directors and shareholders of the Group, are as follows:

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

17. Related parties (continued)

	30 September 2023 AED'000 Unaudited	31 December 2022 AED'000 Audited
Statement of financial position items		
Loans and advances and Islamic financing receivables	3,411,088	3,583,048
Customer deposits and Islamic customer deposits	10,072,230	8,814,053
Investments and Islamic instruments	134,666	147,650
Acceptances	726,021	21,095
Tier 1 capital securities	293,840	293,840
Contingent liabilities		
Letters of credit	62,506	56,093
Financial guarantees and other direct credit substitutes	62,456	58,085
Transaction related contingencies	663,585	269,644
	30 September 2023 AED'000 Unaudited	30 September 2022 AED'000 Unaudited
Statement of changes in equity items		
Tier 1 capital securities coupon paid	8,632	8,632
Statement of income items		
Interest income and income from Islamic financing and investment activities	127,867	85,521
Interest expense and distribution to Islamic depositors	306,084	112,311
Other income	9,894	9,126
Operating expenses	25,630	23,079
Key management compensation		
Salaries and other short-term benefits	21,902	18,645
Employee end of service benefits	832	1,082

No stage 3 provisions for impairment have been recognized pertinent to related parties (31 December 2022: nil). Further, stage 1 and 2 ECL amounted to AED 15.2 million (31 December 2022: AED 16.1 million).

The loans and advances and Islamic financing receivables given to related parties have been secured against collateral amounting to AED 3,067.1 million (31 December 2022: AED 2,219.0 million).

During the period, capital expenditure transactions with related parties amounted to AED 2.3 million (31 December 2022: AED 2.2 million).

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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 III requirements with the addition of the respective changes pertinent to capital supply.

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

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

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

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

- b. Tier 2 capital

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

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

Minimum transitional arrangements as per the Central Bank of the UAE

Capital element	Basel III 2023	Basel III 2022
Minimum common equity tier 1 ratio	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%
Capital conservation buffer	2.5%	2.5%

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

18. Capital adequacy ratio (continued)

AED'000	30 September 2023 Unaudited	31 December 2022 Audited
CET1 capital		
Share capital	2,120,000	2,000,000
Statutory reserve	981,616	981,616
Special reserve	607,462	607,462
Retained earnings	1,302,028	859,827
IFRS 9 transitional arrangement – ECL (stage 1 and 2) impact	153,166	145,679
Accumulated other comprehensive income	(57,217)	(52,192)
Regulatory deductions - intangibles	(137,079)	(49,732)
CET1 total	4,969,976	4,492,660
Additional Tier 1 (AT1) Capital		
Tier 1 capital securities (note 14)	1,285,550	1,285,550
Total Tier 1	6,255,526	5,778,210
Tier 2 Capital		
Collective impairment provision	404,456	377,362
Total Tier 2	404,456	377,362
Total capital base (a)	6,659,982	6,155,572
Risk weighted assets		
Credit risk	32,356,511	30,188,941
Market risk	70,486	58,816
Operational risk	2,902,177	2,902,177
Total risk weighted assets (b)	35,329,174	33,149,934
Capital adequacy ratio (a) / (b)	18.9%	18.6%
Tier 1 ratio	17.7%	17.4%
Common equity Tier 1 ratio (CET 1)	14.1%	13.6%

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (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 September 2023 AED'000 Unaudited	Restated 30 September 2022 AED'000 Unaudited
Cash on hand	316,569	302,532
Balances with the Central Bank of the UAE	1,650,000	600,000
Due from banks with less than three month contractual maturity	1,169,225	1,432,081
	<u>3,135,794</u>	<u>2,334,613</u>

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

Based on residual maturities, cash on hand, balances with the Central Bank of the UAE and due from banks amounting to AED 5,377.6 million are maturing within three months from 30 September 2023 (AED 2,334.6 million had maturity within three months from 30 September 2022).

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 nine month period ended 30 September 2023 (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 systems and Technology, Product Development, Legal, Credit and Internal Audit. The shared services costs are allocated to business segments based on transaction and relevant drivers.

The segment analysis based on business segments is as follows:

Nine month period ended 30 September 2023 AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	661,169	543,635	135,545	345,331	1,685,680
Segment operating cost	(177,907)	(212,681)	(79,899)	(34,426)	(504,913)
Segment operating profit	483,262	330,954	55,646	310,905	1,180,767
Net impairment losses	(602,120)	(36,953)	(25,691)	(2,834)	(667,598)
Profit / (loss) for the period	(118,858)	294,001	29,955	308,071	513,169
30 September 2023 (Unaudited)					
Segment assets	17,776,104	7,569,409	4,468,336	20,159,804	49,973,653
Segment liabilities	24,964,189	10,516,745	4,233,668	3,936,975	43,651,577
Capital expenditure	-	-	-	89,183	89,183

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Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

20. Segmental reporting (continued)

Nine month period ended 30 September 2022 AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	534,397	435,055	117,778	232,635	1,319,865
Segment operating cost	(132,821)	(160,846)	(69,492)	(24,200)	(387,359)
Segment operating profit	401,576	274,209	48,286	208,435	932,506
Net impairment losses	(633,516)	(37,867)	(18,298)	(12,145)	(701,826)
Profit / (loss) for the period	(231,940)	236,342	29,988	196,290	230,680
31 December 2022 (Audited)					
Segment assets	18,185,713	6,961,737	4,098,646	18,378,172	47,624,268
Segment liabilities	24,627,025	10,182,512	3,425,727	3,538,540	41,773,804
Capital expenditure	-	-	-	83,685	83,685

21. IBOR Reforms

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

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

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

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Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2023 (continued)

21. IBOR Reforms (continued)

swaps have floating legs that are indexed to various IBORs. The Group's derivative instruments are governed by ISDA definitions.

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

Financial assets:

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

Currency	30 September 2023 AED'000	31 December 2022 AED'000
US Dollar	178,153	1,697,517
	178,153	1,697,517

Financial liabilities:

The Group has nil (31 December 2022: AED 178.7 million denominated in USD) floating-rate liabilities indexed to IBORs.

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

30 September 2023 (Unaudited) AED'000	Non-derivative financial assets carrying value	Non-derivative financial liabilities carrying value	Derivative notional amount
LIBOR 1 month	-	-	-
LIBOR 3 month	37,284	-	-
LIBOR 6 month	140,869	-	-
	178,153	-	-
31 December 2022 (Audited) AED'000	Non-derivative financial assets carrying value	Non-derivative financial liabilities carrying value	Derivative notional amount
LIBOR 1 month	133,882	-	6,856
LIBOR 3 month	1,300,954	178,685	601,665
LIBOR 6 month	262,681	-	49,586
	1,697,517	178,685	658,107

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For the nine month period ended 30 September 2023 (continued)

21. IBOR Reforms (continued)

Financial liabilities: (continued)

The table below indicates the notional amount and weighted average maturity of derivatives in hedging relationships analysed by interest rate basis. These are nil as financial instruments have transitioned to RFR.

30 September 2023 (Unaudited)	Notional amount AED'000	Average Maturity (Year)
Interest rate swap		
LIBOR 6 month	36,730	0.1
	36,730	0.1
31 December 2022 (Audited)	Notional amount AED'000	Average Maturity (Year)
Interest rate swap		
LIBOR 6 month	49,586	0.5
	49,586	0.5

22. Comparative figures

Certain comparative figures have been reclassified in accordance with 'IAS 1 - Presentation of Financial Statements' in order to conform with the presentation for the current year.

Condensed consolidated interim statement of financial position

Repurchase agreements (31 December 2022: AED 1,994.3 million) which were previously classified within due to banks have now been presented separately in the condensed consolidated interim statement of financial position. As at 01 January 2022, repurchase agreements amounted to AED 1,152.1 million.

Condensed consolidated interim statement of cash flows

Following from the discussions at the IFRS International Interpretation Committee, it was concluded that certain amounts under due to banks should not be shown as part of cash and cash equivalents. As such, the cash and cash equivalents balance increased by AED 981.4 million as at 31 December 2021 and by AED 1,280.9 million as at 30 September 2022.

23. Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the condensed consolidated interim financial information as at and for the nine-month period ended 30 September 2023.