

National Bank of Fujairah PJSC
Condensed consolidated interim financial
information
For the nine month period ended
30 September 2019

Condensed consolidated interim financial information
For the nine month period ended 30 September 2019

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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 September 2019 and the related consolidated interim statements of income and comprehensive income for the three month and nine month periods then ended, statements of cash flows and changes in equity for the nine 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.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on 11 February 2019. Furthermore, the condensed consolidated interim financial information as at and for the period ended 30 September 2018 was reviewed by another auditor who expressed an unqualified conclusion on the interim financial information on 24 October 2018.

For Ernst & Young



Signed by:
Joseph Alexander Murphy
Partner
Registration No.: 492

23 October 2019

Dubai, United Arab Emirates


National Bank of Fujairah PJSC


Consolidated interim statement of financial position

As at 30 September 2019

	Note	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
Assets			
Cash and balances with the UAE Central Bank	5	6,481,079	6,722,964
Due from banks and financial institutions	6	2,238,371	1,415,362
Investments and Islamic instruments	7	3,345,178	2,713,447
Loans and advances and Islamic financing receivables	8	27,556,315	26,202,411
Property and equipment and capital work-in-progress		342,214	292,048
Other assets		2,552,116	2,437,054
Total assets		42,515,273	39,783,286
Liabilities			
Due to banks	11	2,151,912	569,314
Customer deposits and Islamic customer deposits	12	31,192,482	30,472,471
Term borrowings	11	752,965	863,155
Other liabilities		2,891,947	2,756,480
Total liabilities		36,989,306	34,661,420
Shareholders' equity			
Share capital	13	1,850,012	1,644,455
Statutory reserve		936,053	936,053
Special reserve		506,492	506,492
Fair value reserve		24,420	(27,932)
Proposed cash dividends		-	123,334
Proposed bonus issue		-	205,557
Impairment reserve	10.2	251,613	266,440
Retained earnings		1,457,377	967,467
Tier 1 capital notes	14	500,000	500,000
Total shareholders' equity		5,525,967	5,121,866
Total liabilities and shareholders' equity		42,515,273	39,783,286

This condensed consolidated interim financial information was approved by the Board of Directors on 23 October 2019 and was signed on its behalf by:


Vince Cook
 Chief Executive Officer


Adnan Anwar
 Chief Financial Officer

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information. The independent auditor's report on review 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 nine month period ended 30 September 2019

		Three month period ended 30 September 2019 AED'000	Three month period ended 30 September 2018 AED'000	Nine month period ended 30 September 2019 AED'000	Nine month period ended 30 September 2018 AED'000
	Note				
Interest income and income from Islamic financing and investment activities		500,707	470,032	1,462,921	1,291,079
Interest expense and distribution to Islamic depositors		(204,585)	(182,523)	(603,519)	(478,483)
Net interest income and net income from Islamic financing and investment activities		296,122	287,509	859,402	812,596
Net fees and commission income		94,720	82,007	271,902	237,763
Foreign exchange and derivatives income		38,259	33,120	112,482	103,122
Income from investments and Islamic instruments		2,783	1,812	8,359	3,561
Other operating income		7,549	8,207	28,756	24,350
Operating income		439,433	412,655	1,280,901	1,181,392
Operating expenses					
Employee benefits expense		(91,430)	(86,622)	(276,726)	(258,778)
Depreciation and amortization		(9,365)	(6,438)	(27,627)	(19,067)
Other operating expenses		(43,369)	(35,048)	(114,291)	(99,150)
Total operating expenses		(144,164)	(128,108)	(418,644)	(376,995)
Operating profit		295,269	284,547	862,257	804,397
Net impairment losses	15	(140,739)	(132,601)	(350,650)	(342,274)
Profit for the period		154,530	151,946	511,607	462,123
Earnings per share (basic and diluted)	16	AED 0.07	AED 0.06	AED 0.26	AED 0.21

Appropriations have been reflected in the consolidated interim statement of changes in equity.

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information. The independent auditor's report on review 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 nine month period ended 30 September 2019

	Three month period ended 30 September 2019 AED'000	Three month period ended 30 September 2018 AED'000	Nine month period ended 30 September 2019 AED'000	Nine month period ended 30 September 2018 AED'000
Profit for the period	154,530	151,946	511,607	462,123
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	5,483	4,689	28,874	(4,990)
- Net amount transferred to retained earnings	-	(1,093)	1,058	(3,791)
Items that may be reclassified subsequently to income statement:				
Movement in fair value reserve (debt instruments):				
- Net change in fair value	5,233	1,963	26,753	3,132
- Net amount transferred to income statement	(3,125)	(5)	(4,333)	(1,092)
Other comprehensive income / (loss) for the period	7,591	5,554	52,352	(6,741)
Total comprehensive income for the period	162,121	157,500	563,959	455,382

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information. The independent auditor's report on review 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 nine month period ended 30 September 2019

		Nine month period ended 30 September 2019	Nine month period ended 30 September 2018
	Note	AED'000	AED'000
Operating activities			
Profit for the period		511,607	462,123
Adjustments for :			
Depreciation and amortization		27,627	19,067
Provision for employee end of service and other long term benefits		13,241	11,514
Net impairment losses	15	350,650	342,274
Net fair value gains on disposal of investments and Islamic instruments		(3,199)	(2,939)
Net changes in fair value of investments at fair value through profit or loss		(5,160)	(622)
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		894,766	831,417
Payment of employee end of service and other long term benefits		(9,120)	(6,225)
Change in statutory reserve with the UAE Central Bank		(177,324)	(171,437)
Change in due from banks and financial institutions		(379,909)	655,786
Change in loans and advances and Islamic financing receivables		(1,674,866)	(3,067,737)
Change in other assets		(115,062)	(780,919)
Change in due to banks		(174,521)	37,153
Change in customer deposits and Islamic customer deposits		720,011	1,335,652
Change in other liabilities		62,562	750,806
Net cash used in operating activities		(853,463)	(415,504)
Investing activities			
Purchase of property and equipment and capital work-in-progress		(38,342)	(38,322)
Purchase of investments and Islamic instruments		(2,044,860)	(2,135,100)
Proceeds from sale of investments and Islamic instruments		1,472,760	1,414,992
Net cash used in investing activities		(610,442)	(758,430)
Financing activities			
Proceeds from term borrowings		183,650	385,665
Repayment of term borrowings		(293,840)	(606,045)
Cash dividends paid		(123,334)	(102,489)
Tier 1 capital notes coupon paid		(36,524)	(70,938)
Net cash used in financing activities		(270,048)	(393,807)
Net change in cash and cash equivalents		(1,733,953)	(1,567,741)
Cash and cash equivalents at beginning of the period		5,530,379	5,849,839
Cash and cash equivalents at end of the period	19	3,796,426	4,282,098
Principal non-cash transactions during the period			
Conversion of tier 1 capital notes to paid-up share capital		-	(500,000)
Issuance of ordinary shares on conversion of tier 1 capital notes		-	175,439
Movement in reserves on conversion of tier 1 capital notes		-	324,561
		-	-

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information.
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National Bank of Fujairah PJSC

Consolidated interim statement of changes in equity – (Unaudited)

For the nine month period ended 30 September 2019

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Proposed dividends AED'000	Retained earnings AED'000	Impairment reserve AED'000	Tier 1 capital notes AED'000	Total AED'000
At 01 January 2018	1,366,527	549,992	444,992	(4,089)	204,978	1,328,238	-	1,000,000	4,890,638
Initial application of IFRS 9	-	-	-	6,105	-	(300,772)	113,956	-	(180,711)
Restated balance at 01 January 2018	1,366,527	549,992	444,992	2,016	204,978	1,027,466	113,956	1,000,000	4,709,927
Total comprehensive income for the period	-	-	-	(6,741)	-	462,123	-	-	455,382
Conversion of tier 1 capital notes to paid-up share capital (note 13 & 14)	175,439	324,561	-	-	-	-	-	(500,000)	-
Tier 1 capital notes coupon paid (note 14)	-	-	-	-	-	(70,938)	-	-	(70,938)
2017 cash dividends paid	-	-	-	-	(102,489)	-	-	-	(102,489)
2017 bonus shares issued	102,489	-	-	-	(102,489)	-	-	-	-
At 30 September 2018	1,644,455	874,553	444,992	(4,725)	-	1,418,651	113,956	500,000	4,991,882
At 01 January 2019	1,644,455	936,053	506,492	(27,932)	328,891	967,467	266,440	500,000	5,121,866
Total comprehensive income for the period	-	-	-	52,352	-	511,607	-	-	563,959
Excess provisions under CBUAE requirements over IFRS 9 (note 10.2)	-	-	-	-	-	14,827	(14,827)	-	-
Tier 1 capital notes coupon paid (note 14)	-	-	-	-	-	(36,524)	-	-	(36,524)
2018 cash dividends paid	-	-	-	-	(123,334)	-	-	-	(123,334)
2018 bonus shares issued	205,557	-	-	-	(205,557)	-	-	-	-
At 30 September 2019	1,850,012	936,053	506,492	24,420	-	1,457,377	251,613	500,000	5,525,967

The notes on pages 7 to 38 form an integral part of the condensed consolidated interim financial information.

The independent auditors' report on review 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 2019

1. Legal status and activities

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

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

The Bank has three fully owned subsidiary companies:

- NBF Financial Services FZC was established in December 2004 with limited liability status in the Fujairah Free Trade Zone to provide support services to the Bank.
- NBF Capital Limited is registered in the Dubai International Financial Centre (DIFC) as a private company under DIFC laws and regulations and regulated by the Dubai Financial Services Authority (DFSA). The Company was established on 03 April 2013 and commenced operations on 12 May 2013. The principal business activities of the Company are arranging credit or deals in investments and advising on financial products or credit.
- NBF Markets (Cayman) Limited is registered in the Cayman Islands as an exempted company limited by shares under the Companies Law (revised) of the Cayman Islands and regulated by the Cayman Island Government General Registry. The Company was established on 31 January 2017 to provide support services to the Bank to enter into foreign exchange and derivative transactions with financial institutions / counterparties under the terms and conditions of International Swaps and Derivatives Association (ISDA).

The condensed consolidated interim financial information for the nine month period ended 30 September 2019 comprise the Bank and its subsidiaries (together referred to as 'the Group').

UAE Federal Law No. 2 of 2015 (Companies Law) which is applicable to the Group has come into effect from 01 July 2015. The Group had assessed, evaluated and ensured compliance with the relevant provisions of the Companies Law.

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

2. Basis of preparation

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).

These condensed consolidated interim financial information does 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 2018.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

2. Basis of preparation (continued)

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 2018 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 statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 01 January 2019. 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 2019

- (a) **IFRS 16 'Leases'** - The Group adopted IFRS 16 from 01 January 2019, and has not restated the comparative for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position (increase / decrease) as at 30 September 2019:

	2019
	AED'000
Property and equipment and capital work-in-progress	
Right-of-use assets	39,450
Accumulated depreciation	(6,878)
	<u>32,572</u>
Other liabilities	
Lease liabilities	<u>32,982</u>

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

3. Significant accounting policies (continued)

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2019 (continued)

(a) IFRS 16 'Leases' (continued)

Impact on the statement of income (increase / decrease) for the nine month period ended 30 September 2019:

	2019 AED'000
Rent expense	7,643
Depreciation and amortization	(7,214)
Operating profit	429
Finance costs	(832)
Net impact	(403)

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

3. Significant accounting policies (continued)

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 01 January 2019 (continued)

(a) IFRS 16 'Leases' (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

(b) IFRS 9, 'Financial Instruments' - 'Financial Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation

The Board has issued a narrow-scope amendment to IFRS 9 to enable entities to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

This amendment confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

3. Significant accounting policies (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 2018.

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognised in the condensed consolidated interim financial information of the period ended 30 September 2019 pertain to the changes introduced because of adoption of IFRS 16: *Leases*, which are covered in the above section.

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 2018.

(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.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

4. Financial risk management (continued)

(a) Fair value measurement principles (continued)

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.

(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 2019 (Unaudited)	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
Debt securities / Islamic sukuku	-	2,125,654	-	-
Other investments	-	615,224	3,989	-
Forward foreign exchange contracts	15,762,063	-	(17,522)	-
Currency options	15,155,446	-	275	-
Interest rate derivatives	9,618,662	-	(8,175)	-
Commodity derivatives	231,273	-	3,420	-

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

4. Financial risk management (continued)

(b) Fair value hierarchy (continued)

Fair value measurement – fair value hierarchy

31 December 2018 (Audited)	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
Debt securities / Islamic sukuk	-	1,529,534	-	-
Other investments	-	613,931	5,429	-
Forward foreign exchange contracts	14,647,688	-	(8,039)	-
Currency options	8,370,758	-	25	-
Interest rate derivatives	9,591,248	-	(3,118)	-
Commodity derivatives	704,964	-	(3,896)	-

(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:

	30 September 2019 (Unaudited)			31 December 2018 (Audited)		
	Positive fair value AED'000	Negative fair value AED'000	Net AED'000	Positive fair value AED'000	Negative fair value AED'000	Net AED'000
Derivatives						
Forward foreign exchange contracts	60,566	78,088	(17,522)	37,149	45,188	(8,039)
Currency options	23,537	23,262	275	10,219	10,194	25
Interest rate derivatives	173,353	181,528	(8,175)	56,378	59,496	(3,118)
Commodity derivatives	12,175	8,755	3,420	39,060	42,956	(3,896)
	269,631	291,633	(22,002)	142,806	157,834	(15,028)

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (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 September 2019 are shown below:

30 September 2019 (Unaudited)	At fair value through profit or loss AED'000	At fair value through other comprehensive income AED'000	Amortized cost AED'000	Allowances for impairment (ECL) AED'000	Carrying amount AED'000
Financial assets					
Cash and balances with the UAE Central Bank	-	-	6,481,079	-	6,481,079
Due from banks and financial institutions	-	-	2,244,378	(6,007)	2,238,371
Investments and Islamic instruments	34,139	2,710,728	602,737	(2,426)	3,345,178
Loans and advances and Islamic financing receivables	-	-	28,885,211	(1,328,896)	27,556,315
Other assets	-	-	2,490,966	-	2,490,966
Total financial assets	34,139	2,710,728	40,704,371	(1,337,329)	42,111,909
Financial liabilities					
Due to banks	-	-	2,151,912	-	2,151,912
Customer deposits and Islamic customer deposits	-	-	31,192,482	-	31,192,482
Term borrowings	-	-	752,965	-	752,965
Other liabilities	-	-	2,616,655	73,372	2,690,027
Total financial liabilities	-	-	36,714,014	73,372	36,787,386

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

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

5. Cash and balances with the UAE Central Bank

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
Cash on hand	237,215	226,243
Certificates of deposit (CDs) with the UAE Central Bank	4,625,000	4,675,000
Other balances with the UAE Central Bank (note 5.1)	1,618,864	1,821,721
	6,481,079	6,722,964

5.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of **1,618.9 million** (31 December 2018: AED 1,441.5 million).

6. Due from banks and financial institutions

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
6.1 By type		
Placements	641,684	100,000
Current accounts / term deposits	814,820	568,746
Bills discounted	787,874	753,346
	2,244,378	1,422,092
Less: Allowances for impairment (ECL)	(6,007)	(6,730)
	2,238,371	1,415,362

As at 30 September 2019, current accounts / term deposits include cash collateral of **AED 193.0 million** (31 December 2018: AED 28.1 million) in respect of negative fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

Due from banks and financial institutions include a Wakala placement amounting to **AED 47.7 million** (31 December 2018: nil) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
6.2 By geographical area		
UAE	730,666	572,382
GCC	457,856	71,842
Europe	525,562	407,137
Americas	138,878	81,715
Others	391,416	289,016
	2,244,378	1,422,092
Less: Allowances for impairment (ECL)	(6,007)	(6,730)
	2,238,371	1,415,362

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

6. Due from banks and financial institutions (continued)

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
6.3 By currency		
AED	485,228	436,987
USD	1,549,641	499,660
EUR	103,268	381,984
GBP	4,571	5,826
XAU	-	15,972
Others	101,670	81,663
	2,244,378	1,422,092
Less: Allowances for impairment (ECL)	(6,007)	(6,730)
	2,238,371	1,415,362

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
6.4 Based on external credit ratings		
AA	318,404	63
AA-	83,549	41,017
A+	329,561	43,729
A	262,857	193,176
A-	336,051	76,022
BBB+	207,928	438,903
BBB	55,071	125,584
BBB- and below	650,957	503,598
	2,244,378	1,422,092
Less: Allowances for impairment (ECL)	(6,007)	(6,730)
	2,238,371	1,415,362

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (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 September 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	2,222,561	23,487	-	2,246,048
Allowances for impairment (ECL)	(5,552)	(455)	-	(6,007)
Carrying amount	2,217,009	23,032	-	2,240,041

AED'000	31 December 2018 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	1,358,499	64,119	-	1,422,618
Allowances for impairment (ECL)	(4,781)	(1,949)	-	(6,730)
Carrying amount	1,353,718	62,170	-	1,415,888

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 nine month period ended 30 September 2019 (continued)

7. Investments and Islamic instruments

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
Investments at fair value through profit or loss (FVTPL) (note 7.1)	34,139	44,591
Investments at fair value through other comprehensive income (FVOCI)		
Debt securities / Islamic sukuku (note 7.2)	2,125,654	1,529,534
Other investments (note 7.3)	585,074	574,769
	2,710,728	2,104,303
Investments measured at amortized cost		
Debt securities / Islamic sukuku (note 7.2)	602,737	565,899
	3,347,604	2,714,793
Less: Allowances for impairment (ECL)	(2,426)	(1,346)
	3,345,178	2,713,447

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 2,728.4 million (31 December 2018: AED 2,095.4 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 943.6 million (31 December 2018: AED 761.2 million).

Debt securities include Islamic sukuku amounting to AED 636.8 million (31 December 2018: AED 528.2 million).

7.3 Other investments include nil (31 December 2018: AED 0.16 million) shares purchased by the Bank during the period.

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

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
Government	1,054,942	905,536
Banks and financial institutions	1,461,838	968,343
Others	830,824	840,914
	3,347,604	2,714,793
Less: Allowances for impairment (ECL)	(2,426)	(1,346)
	3,345,178	2,713,447

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

7. Investments and Islamic instruments (continued)

7.5 By geography

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
UAE	723,836	521,603
GCC	316,384	227,212
Europe	754,638	788,692
Americas	724,333	480,709
Others	828,413	696,577
	3,347,604	2,714,793
Less: Allowances for impairment (ECL)	(2,426)	(1,346)
	3,345,178	2,713,447

7.6 By currency

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
AED	467	467
USD	3,307,210	2,656,476
EUR	28,425	40,058
JPY	11,502	17,792
	3,347,604	2,714,793
Less: Allowances for impairment (ECL)	(2,426)	(1,346)
	3,345,178	2,713,447

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

7. Investments and Islamic instruments (continued)

7.7 Based on external credit ratings

30 September 2019 (Unaudited)	Debt securities / Islamic sukuku AED'000	Other investments AED'000	Total AED'000
AAA	147,069	97,630	244,699
AA+	-	-	-
AA	246,178	95,160	341,338
AA-	737,850	120,418	858,268
A+	244,114	-	244,114
A	281,881	222,929	504,810
A-	534,698	-	534,698
BBB+	36,837	-	36,837
BBB- and below	499,764	83,076	582,840
Less: Allowances for impairment (ECL)	(1,873)	(553)	(2,426)
	2,726,518	618,660	3,345,178

31 December 2018 (Audited)	Debt securities / Islamic sukuku AED'000	Other investments AED'000	Total AED'000
AAA	128,249	91,733	219,982
AA+	94,558	-	94,558
AA	274,714	90,692	365,406
AA-	386,860	-	386,860
A+	339,840	113,568	453,408
A	77,619	206,495	284,114
A-	292,822	-	292,822
BBB+	149,065	-	149,065
BBB- and below	351,706	116,872	468,578
Less: Allowances for impairment (ECL)	(1,051)	(295)	(1,346)
	2,094,382	619,065	2,713,447

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (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 2019 (Unaudited)				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	3,264,528	-	-	3,264,528
Allowances for impairment (ECL)	(2,426)	-	-	(2,426)
Carrying amount	3,262,102	-	-	3,262,102

31 December 2018 (Audited)				
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	2,597,921	-	-	2,597,921
Allowances for impairment (ECL)	(1,346)	-	-	(1,346)
Carrying amount	2,596,575	-	-	2,596,575

Debt investments and Islamic instruments 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 nine month period ended 30 September 2019 (continued)

8. Loans and advances and Islamic financing receivables

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
8.1 By type		
Overdrafts	2,611,824	2,227,625
Term loans	20,183,787	19,178,357
Loans against trust receipts	3,408,750	3,361,286
Bills discounted	2,298,947	2,304,705
Bills drawn under letters of credit	381,903	295,260
Gross loans and advances and Islamic financing receivables	28,885,211	27,367,233
Allowances for impairment (ECL) (note 10.1)	(1,328,896)	(1,164,822)
Net loans and advances and Islamic financing receivables	27,556,315	26,202,411

8.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to AED 3,525.4 million (31 December 2018: AED 3,058.1 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 September 2019 (Unaudited)			
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	26,619,497	2,931,350	1,657,975	31,208,822
Allowances for impairment (ECL)	(251,240)	(151,140)	(926,516)	(1,328,896)
Carrying amount	26,368,257	2,780,210	731,459	29,879,926

	31 December 2018 (Audited)			
AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	24,992,897	3,182,337	1,538,965	29,714,199
Allowances for impairment (ECL)	(166,819)	(188,542)	(809,461)	(1,164,822)
Carrying amount	24,826,078	2,993,795	729,504	28,549,377

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

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

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

Outstanding balance - AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2018	24,992,897	3,182,337	1,538,965	29,714,199
Transferred from Stage 1	(608,417)	574,743	33,674	-
Transferred from Stage 2	418,212	(542,406)	124,194	-
Transferred from Stage 3	-	12,821	(12,821)	-
Originated / derecognized during the period	1,816,805	(296,145)	130,852	1,651,512
Written-off during the period	-	-	(156,889)	(156,889)
Gross carrying amount - 30 September 2019	26,619,497	2,931,350	1,657,975	31,208,822

Outstanding balance - AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 01 January 2018	22,152,732	3,236,893	1,656,826	27,046,451
<i>Changes due to financial assets recognised in the opening balance that have:</i>				
Transferred from Stage 1	(461,477)	403,866	57,611	-
Transferred from Stage 2	-	(322,675)	322,675	-
Transferred from Stage 3	-	3,498	(3,498)	-
Originated / derecognized during the year	3,301,642	(139,245)	166,215	3,328,612
Written-off during the year	-	-	(660,864)	(660,864)
Gross carrying amount - 31 December 2018	24,992,897	3,182,337	1,538,965	29,714,199

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (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 - AED'000	Stage 1	Stage 2	Stage 3	Total
ECL allowance - 31 December 2018	166,819	188,542	809,461	1,164,822
Transferred from Stage 1	(6,659)	31,068	37,849	62,258
Transferred from Stage 2	4,519	(36,990)	77,086	44,615
Transferred from Stage 3	-	969	(4,820)	(3,851)
Originated / derecognized during the period including changes in PDs / LGDs / EADs	86,561	(32,449)	163,829	217,941
Net allowance for impairment losses	84,421	(37,402)	273,944	320,963
Written-off during the period	-	-	(156,889)	(156,889)
ECL allowance - 30 September 2019	251,240	151,140	926,516	1,328,896

ECL - AED'000	Stage 1	Stage 2	Stage 3	Total
ECL allowance - 01 January 2018	109,607	186,257	1,108,686	1,404,550
<i>Changes due to financial assets recognised in the opening balance that have:</i>				
Transferred from Stage 1	(3,793)	13,300	19,036	28,543
Transferred from Stage 2	-	(29,552)	171,585	142,033
Transferred from Stage 3	-	200	(1,773)	(1,573)
Originated / derecognized during the year including changes in PDs / LGDs / EADs	61,005	18,337	172,791	252,133
Net allowance for impairment losses	57,212	2,285	361,639	421,136
Written-off during the year	-	-	(660,864)	(660,864)
ECL allowance - 31 December 2018	166,819	188,542	809,461	1,164,822

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (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 has been presented below:

Risk Grade

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
Stage 1 and 2 (RR 1-19)		
Grades 1-18: Performing or normal	26,334,751	25,005,837
Grade 19: Other Loans Especially Mentioned (OLEM)	1,084,345	958,114
	27,419,096	25,963,951
Stage 3 (RR 20-22)		
Grade 20: Sub-standard	107,614	215,117
Grade 21: Doubtful	410,923	439,527
Grade 22: Loss	947,578	748,638
	1,466,115	1,403,282
Total	28,885,211	27,367,233

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Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

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 below.

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
Contingent liabilities:		
– Letters of credit covering movement of goods	1,805,462	1,606,439
– Financial guarantees and other direct credit substitutes	909,357	965,942
– Bid bonds, performance bonds and other transaction related contingencies	5,156,887	5,056,190
	<u>7,871,706</u>	<u>7,628,571</u>
Commitments:		
– Undrawn irrevocable commitments – credit related	172,610	177,458
– Others	108,061	75,403
	<u>280,671</u>	<u>252,861</u>
	<u>8,152,377</u>	<u>7,881,432</u>

The total undrawn commitments which are revocable at the discretion of the Bank amount to AED 14,086 million (31 December 2018: AED 14,080 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 2019 (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 2019 (Unaudited)

AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	6,645,705	808,577	111,828	7,566,110
Allowances for impairment (ECL)	(20,558)	(4,163)	(48,651)	(73,372)
Carrying amount	6,625,146	804,415	63,177	7,492,738

31 December 2018 (Audited)

AED'000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	6,433,141	1,163,486	31,944	7,628,571
Allowances for impairment (ECL)	(23,983)	(5,171)	(14,888)	(44,042)
Carrying amount	6,409,158	1,158,315	17,056	7,584,529

9.2 Movement in the gross balance and corresponding ECL allowances of off-balance sheet exposures

Outstanding balance – AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 31 December 2018	6,433,141	1,163,486	31,944	7,628,571
Transferred from Stage 1	(165,743)	134,452	31,291	-
Transferred from Stage 2	334,792	(407,238)	72,446	-
Transferred from Stage 3	-	-	-	-
Originated / expired during the period	43,515	(82,123)	(23,853)	(62,461)
Gross carrying amount - 30 September 2019	6,645,705	808,577	111,828	7,566,110

Outstanding balance – AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 01 January 2018	6,491,737	1,237,523	48,022	7,777,282
Changes due to financial assets recognised in the opening balance that have:				
Transferred from Stage 1	(178,647)	178,545	102	-
Transferred from Stage 2	-	(29,456)	29,456	-
Transferred from Stage 3	-	735	(735)	-
Originated / expired during the year	120,051	(223,861)	(44,901)	(148,711)
Gross carrying amount - 31 December 2018	6,433,141	1,163,486	31,944	7,628,571

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

9. Contingent liabilities and commitments (continued)

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

ECL – AED ' 000	Stage 1	Stage 2	Stage 3	Total
ECL allowances - 31 December 2018	23,983	5,171	14,888	44,042
Transferred from Stage 1	(1,198)	535	10,279	9,616
Transferred from Stage 2	679	(1,605)	29,808	28,882
Transferred from Stage 3	-	-	-	-
Originated / expired during the period including changes in PDs / LGDs / EADs	(2,906)	62	(6,324)	(9,168)
Net allowance for impairment losses	(3,425)	(1,008)	33,763	29,330
ECL allowances - 30 September 2019	20,558	4,163	48,651	73,372

ECL – AED ' 000	Stage 1	Stage 2	Stage 3	Total
ECL allowances - 01 January 2018	20,545	5,244	4,937	30,726
<i>Changes due to financial assets recognised in the opening balance that have:</i>				
Transferred from Stage 1	(315)	1,050	56	791
Transferred from Stage 2	-	(186)	16,180	15,994
Transferred from Stage 3	-	5	(327)	(322)
Originated / expired during the year including changes in PDs / LGDs / EADs	3,753	(942)	(5,958)	(3,147)
Net allowance for impairment losses	3,438	(73)	9,951	13,316
ECL allowances - 31 December 2018	23,983	5,171	14,888	44,042

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to AED 73.4 million, (31 December 2018: AED 44.0 million) 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 2019 (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:

30 September 2019 (Unaudited)

AED'000

	Loans and advances and Islamic financing receivables and acceptances	Due from Banks and financial institutions	Investments and Islamic instruments	Off-balance sheet exposures	Total
Stage 3	926,516	-	-	48,651	975,167
Stage 2	151,140	455	-	4,163	155,758
Stage 1	251,240	5,552	2,426	20,558	279,776
	<u>402,380</u>	<u>6,007</u>	<u>2,426</u>	<u>24,721</u>	<u>435,534</u>
Total ECL	<u>1,328,896</u>	<u>6,007</u>	<u>2,426</u>	<u>73,372</u>	<u>1,410,701</u>

31 December 2018 (Audited)

AED'000

Stage 3	809,461	-	-	14,888	824,349
Stage 2	188,542	1,949	-	5,171	195,662
Stage 1	166,819	4,781	1,346	23,983	196,929
	<u>355,361</u>	<u>6,730</u>	<u>1,346</u>	<u>29,154</u>	<u>392,591</u>
Total ECL	<u>1,164,822</u>	<u>6,730</u>	<u>1,346</u>	<u>44,042</u>	<u>1,216,940</u>

- 10.2 The table below analyses the movement in the impairment reserve during the period ended 30 September 2019:

AED'000	Impairment reserve - General	Impairment reserve - Specific	Impairment reserve
At 01 January 2019	75,260	191,180	266,440
Reduction in excess general provision under CBUAE over stage 1 and 2 requirements under IFRS 9	(16,945)	-	(16,945)
Increase in specific provision under CBUAE over stage 3 requirements under IFRS 9	-	2,118	2,118
	<u>(16,945)</u>	<u>2,118</u>	<u>(14,827)</u>
At 30 September 2019	<u>58,315</u>	<u>193,298</u>	<u>251,613</u>

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

11. Due to banks and term borrowings

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
<i>By type:</i>		
Bilateral borrowings (note 11.1)	752,965	863,155
Due to banks including balances due to the UAE Central Bank (note 11.2)	2,151,912	569,314
	2,904,877	1,432,469
<i>By geographical area:</i>		
UAE	1,887,522	354,399
GCC	-	36,730
Europe	407,505	687,638
Americas	496,702	183,650
Others	113,148	170,052
	2,904,877	1,432,469

As at 30 September 2019, due to banks include cash collateral of nil (31 December 2018: AED 4.7 million), in respect of positive fair value of derivatives, in accordance with the CSA agreements with the interbank counterparties.

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

Loan no.	Year obtained	Maturity	Interest rate	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
1	2019	Mar-20	Libor + Margin	183,650	-
2	2018	Dec-20	Libor + Margin	73,460	73,460
3	2018	Jun-20	Libor + Margin	91,825	91,825
4	2018	Dec-19	Libor + Margin	55,095	55,095
5	2018	Nov-19	Libor + Margin	55,095	55,095
6	2018	May-20	Libor + Margin	110,190	110,190
7	2018	Mar-19	Libor + Margin	-	183,650
8	2017	Jul-20	Libor + Margin	183,650	183,650
9	2017	Mar-19	Libor + Margin	-	55,095
10	2017	Mar-19	Libor + Margin	-	55,095
				752,965	863,155

Bilateral borrowings include a Murabaha borrowing amounting to AED 183.7million (31 December 2018: AED 183.7 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

- 11.2 Due to banks include gold related borrowings amounting to AED 49.1 million (31 December 2018: AED 311.2 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 2019 (continued)

12. Customer deposits and Islamic customer deposits

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
<i>By type:</i>		
Demand and margin deposits	9,764,239	8,476,605
Saving deposits	324,095	299,997
Fixed term and notice deposits	21,104,148	21,695,869
	31,192,482	30,472,471
<i>By geographical area:</i>		
UAE	27,811,320	26,625,113
GCC	1,699,190	2,653,943
Europe	360,068	154,782
Americas	391,070	399,235
Others	930,834	639,398
	31,192,482	30,472,471

- 12.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha Wakala and Mudaraba deposits amounting to AED 3,969.7 million (31 December 2018: AED 4,194.4 million) undertaken through a Shari'a - compliant Islamic window, NBF Islamic.

13. Shareholders' equity

13.1 Share capital

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
<i>Authorised, issued and fully paid:</i>		
1,850,011,482 shares of AED 1 each (2018: 1,644,454,651 shares of AED 1 each)	1,850,012	1,644,455

13.2 Proposed dividend

The Board of Directors proposed a distribution of bonus shares of 12.5% of share capital and cash dividend of 7.5% of share capital for the year ended 31 December 2018. This distribution was approved by the shareholders at the Annual General Assembly Meeting held in March 2019.

13.3 Conversion of tier 1 capital notes to paid-up share capital

Following approval of the Annual General Assembly Meeting held on 18 March 2018 and regulatory authorities, the tier 1 capital notes of AED 500 million were converted on 30 September 2018 into paid-up share capital represented by 175,438,596 shares of AED 1 each issued at AED 2.85 for each note, resulting in the recognition of AED 324,561,404 in reserves.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

14. Tier 1 capital notes

In March 2013, the Bank issued Tier 1 capital notes with a principal amount of AED 500 million (the "Capital Notes"). Issuance of these Capital Notes was approved by the Bank's Extra Ordinary General Meeting (EGM) in March 2013. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Notes bear interest at a fixed rate payable semi-annually in arrears. The Capital Notes are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Bank subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest / coupon payment. These Capital Notes have been converted to paid-up share capital on 30 September 2018 (refer note 13.3).

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

Subsequent to the balance sheet date, 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 will be 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 will be accounted for as deduction from equity. The Bank has also completed early buy-back of existing privately placed AT1 capital notes of AED 500 million in October 2019. Following these capital changes, the Bank's capital adequacy ratio will be in the range of 18% – 19% and tier 1 ratio in the range of 17% – 18%.

15. Net impairment losses

	30 September 2019 AED'000 Unaudited	30 September 2018 AED'000 Unaudited
Loans and advances and Islamic financing receivables, acceptances and off balance sheet items	350,293	341,778
Due from banks and financial institutions	(723)	427
Investments and Islamic instruments	1,080	69
	<u>350,650</u>	<u>342,274</u>

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

16. Earnings per share

The calculation of earnings per share for the nine month period ended 30 September 2019 is based on net profit of AED 475.1 million (30 September 2018: AED 391.2 million), after deduction of AED 36.5 million (30 September 2018: AED 70.9 million) of coupon payment on tier 1 capital notes, divided by the weighted average number of shares of 1,850.0 million (30 September 2018: 1,850.0 million shares after adjusting for bonus shares and conversion of tier 1 capital notes to paid-up share capital) outstanding during the period.

The calculation of earnings per share for the three month period ended 30 September 2019 is based on net profit of AED 136.1 million (30 September 2018: AED 116.1 million), after deduction of AED 18.4 million (30 September 2018: AED 35.8 million) of coupon payment on tier 1 capital notes, divided by the weighted average number of shares of 1,850.0 million (30 September 2018: 1,850.0 million shares after adjusting for bonus shares and conversion of tier 1 capital notes to paid-up share capital) 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:

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
Statement of financial position items		
Loans and advances and Islamic financing receivables	1,902,630	2,101,575
Customer deposits and Islamic customer deposits	6,488,519	5,737,620
Investments and Islamic instruments	224,502	109,898
Acceptances	22,726	12,719
Tier 1 capital notes	190,000	190,000
Statement of changes in equity items		
Tier 1 capital notes coupon paid	13,776	48,463
Contingent liabilities		
Letters of credit	77,817	64,510
Financial guarantees and other direct credit substitutes	83,759	87,609
Transaction related contingencies	286,016	264,508

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

17. Related parties (continued)

	30 September 2019 AED'000 Unaudited	30 September 2018 AED'000 Unaudited
Statement of income items		
Interest income and income from Islamic financing and investment activities	64,657	68,196
Interest expense and distribution to Islamic depositors	155,870	112,539
Other income	4,162	8,780
Key management compensation		
Salaries and other short-term benefits	16,267	14,993
Employee end of service benefits	719	514

No stage 3 provisions for impairment have been recognized in respect of loans and advances and Islamic financing receivables to related parties (31 December 2018: nil).

The loans and advances and Islamic financing receivables to related parties amounting to AED 1,902.6 million (31 December 2018: AED 2,101.6 million) have been secured against collateral amounting to AED 1,469.9 million (31 December 2018: AED 1,578.4 million).

During 2018, the Bank purchased plots of land from a related party amounting to AED 99.6 million.

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.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

18. Capital adequacy ratio (continued)

- 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.

	30 September 2019 AED'000 Unaudited	31 December 2018 AED'000 Audited
CET1 capital		
Share capital	1,850,012	1,644,455
Statutory reserve	936,053	936,053
Special reserve	506,492	506,492
Retained earnings	1,457,377	1,173,024
Accumulated other comprehensive income	10,989	(27,932)
CET1 total	4,760,923	4,232,092
Additional Tier 1 (AT1) capital		
Tier 1 capital notes	500,000	500,000
Total Tier 1	5,260,923	4,732,092
Tier 2 capital		
Collective impairment provision	398,063	385,535
Total Tier 2	398,063	385,535
Total capital base (a)	5,658,986	5,117,627
Risk weighted assets		
	30 September 2019 Risk-weighted equivalent AED'000 Unaudited	31 December 2018 Risk-weighted equivalent AED'000 Audited
Credit risk	31,845,075	30,842,794
Market risk	86,703	66,694
Operational risk	2,690,987	2,690,987
Total risk weighted assets (b)	34,622,765	33,600,475
Capital adequacy ratio (a) / (b) - %	16.3	15.2
Tier 1 ratio - %	15.2	14.1
Common equity tier 1 ratio (CET 1) - %	13.8	12.6

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (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 2019 AED'000 Unaudited	30 September 2018 AED'000 Unaudited
Cash on hand	237,215	190,906
Balances with the UAE Central Bank (note 19.1)	4,625,000	3,897,991
Due from banks with less than three months maturity	1,011,123	906,579
	5,873,338	4,995,476
Due to banks with less than three months maturity	(2,076,912)	(713,378)
	3,796,426	4,282,098

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

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.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (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 cost is allocated to business segments based on transaction and relevant drivers.

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

Nine month period ended 30 September 2019 - AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	708,496	234,233	105,010	233,162	1,280,901
Segment operating cost	(205,185)	(102,369)	(85,063)	(26,027)	(418,644)
Segment operating profit	503,311	131,864	19,947	207,135	862,257
Net impairment losses	(265,752)	(56,891)	(24,137)	(3,870)	(350,650)
Profit / (loss)	237,559	74,973	(4,190)	203,265	511,607
30 September 2019 (Unaudited)					
Segment assets	24,170,730	3,589,690	2,978,796	11,776,057	42,515,273
Segment liabilities	27,764,918	3,436,927	2,861,785	2,925,676	36,989,306
Capital expenditure	-	-	-	38,342	38,342

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information

For the nine month period ended 30 September 2019 (continued)

20. Segmental reporting (continued)

Nine month period ended 30 September 2018 - AED'000 (Unaudited)	Corporate and institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	675,117	215,969	101,007	189,299	1,181,392
Segment operating cost	(183,190)	(95,945)	(75,203)	(22,657)	(376,995)
Segment operating profit	491,927	120,024	25,804	166,642	804,397
Net impairment losses	(270,841)	(45,220)	(25,009)	(1,204)	(342,274)
Profit	221,086	74,804	795	165,438	462,123
31 December 2018 (Audited)					
Segment assets	22,965,960	3,308,935	2,911,574	10,596,817	39,783,286
Segment liabilities	27,391,997	3,296,130	2,725,155	1,248,138	34,661,420
Capital expenditure	-	-	-	153,223	153,223