NOOR BANK

MID-YEAR REPORT
2018 CONSOLIDATED FINANCIALS

Noor Bank PJSC

Condensed consolidated interim financial statements for the six month period ended 30 June 2018

Noor Bank PJSC

Condensed consolidated interim financial statements for the six month period ended 30 June 2018

Review report to the Directors of Noor Bank PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Noor Bank PJSC ("the Bank") and its subsidiaries (together referred to as "the Group") as of 30 June 2018 and the related condensed consolidated interim income statement and condensed consolidated interim statements of comprehensive income for the three month and six month periods then ended, condensed consolidated interim statement of changes in equity and cash flows for the six month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of condensed consolidated interim financial statements 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 statements are not prepared, in all material respects, in accordance with IAS 34.

PricewaterhouseCoopers
14 August 2018

Jacques Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

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Condensed consolidated interim statement of financial position

As at 30 June 2018

	Note	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	4,723,079	4,577,677
Due from banks	5	3,847,664	4,880,190
Investments in Islamic financing instruments	6	29,842,267	27,449,688
Investments in Islamic sukuk	7	5,422,215	3,726,988
Investment properties	8	1,203,619	1,178,947
Other assets		371,495	681,821
Property and equipment	9	182,050	173,227
Total assets		45,592,389	42,668,538
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	10	30,851,136	30,329,118
Due to banks	11	2,226,118	1,908,507
Sukuk financing instruments	12	3,673,150	1,836,450
Other liabilities		3,057,618	2,744,205
Total liabilities		39,808,022	36,818,280
EQUITY			
Share capital	13	3,574,895	3,574,895
Tier 1 sukuk	14	1,836,500	1,836,500
Statutory reserve	15	286,779	286,779
Revaluation surplus on land and buildings	9	117,442	118,884
Fair value reserve on Islamic sukuk at FVOCI		(43,791)	(7,250)
Retained earnings		12,542	40,450
Total equity		5,784,367	5,850,258
Total liabilities and equity		45,592,389	42,668,538

These condensed consolidated interim financial statements were approved by the Board of Directors on 8 August 2018 and signed on its behalf by:

…………………………
Director

…………………………
Director

Condensed consolidated interim income statement (Unaudited)

for the six month period ended 30 June 2018

	Note	Three month period ended 30 June 2018 AED'000	Three month period ended 30 June 2017 AED'000	Six month period ended 30 June 2018 AED'000	Six month period ended 30 June 2017 AED'000
Operating income					
Income from Islamic financing and sukuk	16	478,198	380,579	912,966	751,580
Depositors' and sukuk holders' share of profit	17	(161,162)	(90,411)	(286,599)	(182,201)
Net income from Islamic financing and sukuk		317,036	290,168	626,367	569,379
Fee and other income, net of charges	18	172,663	228,902	359,247	400,017
(Loss)/gain on investments in Islamic sukuk	19	(2,813)	38,014	3,335	47,994
Total operating income		486,886	557,084	988,949	1,017,390
Operating expenses					
Staff costs		(124,932)	(138,776)	(248,027)	(276,372)
General and administration expenses		(43,778)	(37,026)	(84,937)	(73,203)
Depreciation		(6,595)	(8,009)	(13,996)	(15,440)
Total operating expenses		(175,305)	(183,811)	(346,960)	(365,015)
Operating profit before impairment charge		311,581	373,273	641,989	652,375
Impairment charge on financial assets, net	20	(191,680)	(286,573)	(321,112)	(463,330)
Impairment loss on equity investments		-	(7,000)	-	(7,000)
Profit for the period		119,901	79,700	320,877	182,045

Condensed consolidated interim statement of comprehensive income (Unaudited)

for the six month period ended 30 June 2018

	Note	Three month period ended 30 June 2018 AED'000	Three month period ended 30 June 2017 AED'000	Six month period ended 30 June 2018 AED'000	Six month period ended 30 June 2017 AED'000
Profit for the period		119,901	79,700	320,877	182,045
Other comprehensive income:					
Items that may be reclassified to income statement:					
Fair value reserve on Islamic sukuk at FVOCI					
- Net changes in fair value	7	(11,371)	17,442	(50,600)	54,569
- Net realised gain reclassified to income statement	19	(114)	(27,337)	(5,690)	(24,898)
Total other comprehensive (loss)/income		(11,485)	(9,895)	(56,290)	29,671
Total comprehensive income for the period		108,416	69,805	264,587	211,716

Condensed consolidated interim statement of changes in equity

for the six month period ended 30 June 2018

	Share capital AED'000	Tier 1 sukuk AED '000	Statutory reserve AED'000	Revaluation surplus on land and buildings AED'000	Fair value reserve on available-for-sale Islamic sukuk/Islamic sukuk at FVOCI AED'000	(Accumulated losses)/ retained earnings AED'000	Total AED'000
At 1 January 2017	3,357,895	1,836,500	249,690	121,767	(34,454)	(181,459)	5,349,939
Profit for the period	-	-	-	-	-	182,045	182,045
Other comprehensive income for the period	-	-	-	-	29,671	-	29,671
Total comprehensive income for the period	-	-	-	-	29,671	182,045	211,716
Other equity movements							
Tier 1 sukuk profit distribution (Note 14)	-	-	-	-	-	(57,388)	(57,388)
Transfer from revaluation surplus on buildings to retained earnings	-	-	-	(1,442)	-	1,442	-
At 30 June 2017 (unaudited)	3,357,895	1,836,500	249,690	120,325	(4,783)	(55,360)	5,504,267
Profit for the period	-	-	-	-	-	188,844	188,844
Other comprehensive loss for the period	-	-	-	-	(2,467)	-	(2,467)
Total comprehensive income for the year	-	-	-	-	(2,467)	188,844	186,377
Other equity movements							
Share capital issued	217,000	-	-	-	-	-	217,000
Tier 1 sukuk profit distribution (Note 14)	-	-	-	-	-	(57,386)	(57,386)
Transfer to statutory reserve (Note 15)	-	-	37,089	-	-	(37,089)	-
Transfer from revaluation surplus on buildings to retained earnings	-	-	-	(1,441)	-	1,441	-
At 31 December 2017 (audited)	3,574,895	1,836,500	286,779	118,884	(7,250)	40,450	5,850,258
At 1 January 2018	3,574,895	1,836,500	286,779	118,884	(7,250)	40,450	5,850,258
Cumulative effect of adoption of IFRS 9 (Note 3.1(b))	-	-	-	-	19,749	(293,155)	(273,406)
Restated balance at 1 January 2018	3,574,895	1,836,500	286,779	118,884	12,499	(252,705)	5,576,852
Profit for the period	-	-	-	-	-	320,877	320,877
Other comprehensive loss for the period	-	-	-	-	(56,290)	-	(56,290)
Total comprehensive income for the period	-	-	-	-	(56,290)	320,877	264,587
Other equity movements							
Tier 1 sukuk profit distribution (Note 14)	-	-	-	-	-	(57,072)	(57,072)
Transfer from revaluation surplus on buildings to retained earnings	-	-	-	(1,442)	-	1,442	-
At 30 June 2018 (unaudited)	3,574,895	1,836,500	286,779	117,442	(43,791)	12,542	5,784,367

Condensed consolidated interim statement of cash flows (Unaudited)

for the six month period ended 30 June 2018

	Note	Six month period ended 30 June 2018 AED'000	Six month period ended 30 June 2017 AED'000
Operating activities			
Profit for the period		320,877	182,045
Adjustments for:			
Impairment charge on financial assets, net	20	321,112	463,330
Impairment loss on equity investments		-	7,000
Amortisation of premium on held-to-maturity Islamic sukuk		-	(217)
Gain on investments in Islamic sukuk	19	(3,335)	(46,851)
Loss on disposal of investment properties	8	50	641
Depreciation of property and equipment		13,996	15,440
Provision for employees' end of service benefits		3,630	3,641
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		2,715	12,322
Operating cash flows before changes in operating assets and liabilities		659,045	637,351
Changes in operating assets and liabilities:			
Statutory deposit with the UAE Central Bank	4	62,907	(208,453)
Due from banks	5	(75,274)	888,944
Investments in Islamic financing instruments	6	(2,953,173)	(2,349,006)
Net proceeds from disposal of Islamic sukuk at FVPL		15,364	238,161
Other assets		310,326	(7,209)
Due to banks	11	473,952	(327,999)
Customer deposits	10	522,018	(190,685)
Payments of employees' end of service benefits		(3,922)	(2,056)
Other liabilities		253,693	141,471
Net cash used in operating activities		(735,064)	(1,179,481)
Investing activities			
(Investments in) / disposal of Islamic sukuk		(1,757,514)	1,265,977
Proceeds from disposal of investment properties		1,150	5,289
Additions to property and equipment		(22,819)	(6,072)
Net cash (used in)/generated from investing activities		(1,779,183)	1,269,398
Financing activities			
Issuance of Sukuk financing instrument	12	1,836,700	-
Tier 1 sukuk profit distribution		(57,072)	(57,388)
Net cash generated from/(used in) financing activities		1,779,628	(57,388)
Net (decrease)/increase in cash and cash equivalents		(734,619)	29,108
Cash and cash equivalents at beginning of the period		4,067,565	1,827,312
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(2,715)	(12,322)
Cash and cash equivalents at end of the period	4	3,330,231	1,844,098

1 Incorporation and principal activities

Noor Bank PJSC ("the Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Mudarabah, Wakalah, Tawarruq, Ijarah, Istisna' and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari'a rules and principles as applied and interpreted by the Bank's Shari'a Supervisory Committee and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

The Bank has following fully owned special purpose entities ("SPE"):

Name of entity	Activity	Place of incorporation	Date of incorporation
Noor Sukuk Company Limited (Note 12)	Special purpose entity	Cayman Islands	April 2015
Noor Tier 1 Sukuk Limited (Note 14)	Special purpose entity	Cayman Islands	August 2015
Noor Structured Certificates Ltd.*	Special purpose entity	Cayman Islands	July 2016
Noor Derivatives Limited**	Special purpose entity	Cayman Islands	April 2017

* An entity established to facilitate the issuance of Bank's structured Islamic certificates.

** An entity established to facilitate the Bank's Islamic derivative transactions.

The condensed consolidated interim financial statements for the period ended 30 June 2018 comprise the Bank and its SPEs (together referred to as "the Group").

Noor Investment Group LLC ("NIG"), the ultimate parent company, holds 91% of the shareholding in the Bank.

2 Basis of preparation

2.1 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting''. These condensed consolidated interim financial statements do not include all the notes to the financial statements of the type normally included in annual consolidated financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB), except for changes in accounting policies explained in Note 3 and arising from the adoption of IFRS 9.

2 Basis of preparation (continued)

2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the condensed consolidated interim statement of financial position:

- Financial assets classified as at fair value through other comprehensive income (‘FVOCI’) and fair value through profit or loss (‘FVPL’);
- Investment properties;
- Buildings classified under property and equipment;
- Islamic derivatives.

2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in United Arab Emirates Dirham (“AED”), which is the functional currency of the Bank and its subsidiaries, being the currency of primary economic environment in which the entities operate. Except as indicated, the condensed consolidated interim financial statements have been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Group has consistently applied the estimates and judgements as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following estimates and judgements which are applicable from 1 January 2018.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Changes to judgements made in applying accounting policies that have most significant effects on the amounts recognised in the condensed consolidated interim financial statements for the period ended 30 June 2018 pertain to the following changes introduced as a result of adoption of IFRS 9: Financial instruments:

(a) Classification of financial assets

In accordance with IFRS 9 guidance, the Group classifies its financial assets based on the assessment of the business models in which the assets are held at a portfolio level and whether cash flows generated by assets constitute solely payments of principal and profit (‘SPPP’). This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause for the cash flows in all financial assets of a certain type breaches SPPP criteria and results in a material portfolio being recorded at fair value through profit or loss. Explanation and further details on business models and cash flow characteristics of financial assets are described in note 3.2.2.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(b) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

2.5 Changes in accounting policies and disclosures

(a) New standards, amendments to published standards and interpretations effective for the Group's accounting period beginning on 1 January 2018

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There is no material impact on the condensed consolidated interim financial statements of the Group from the adoption of above new standard on 1 January 2018.	1 January 2018

2 Basis of preparation (continued)

2.5 Changes in accounting policies and disclosures (continued)

(a) New standards, amendments to published standards and interpretations effective for the Group's accounting period beginning on 1 January 2018 (continued)

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 9, 'Financial instruments' IFRS 9 addresses the classification, measurement, recognition and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. In line with the IFRS 9 transition provisions, the Group has elected not to re-state comparative periods and has adjusted its retained earnings at 01 January 2018 to reflect the application of requirements under the new standard. The application of contractual cash flow characteristics and business model tests has changed the classification and measurement of certain financial assets under IFRS 9 as compared to IAS 39. The resultant changes in classification and measurement of financial assets are given in Note 3.1(a). The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than the incurred credit losses basis as is the case under IAS 39. It applies to financial assets classified at amortised cost, financial assets measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, financing commitments and certain financial guarantee contracts. The new standard has also introduced expanded disclosure requirements which has changed the nature and extent of the Group's disclosures about its financial assets.	1 January 2018

There are no other applicable IFRSs or IFRIC interpretations that were effective for the first time for the accounting period beginning on 1 January 2018 that have had a material impact on the Group's condensed consolidated interim financial statements.

2 Basis of preparation (continued)

2.5 Changes in accounting policies and disclosures (continued)

(b) New standards and amendments to published standards and interpretations issued but not yet effective for the Group's accounting period beginning 1 January 2018 and not early adopted by the Group

New standards and significant amendments to standards applicable to the Group	Effective date
IFRS 16, 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. The Group is assessing the impact of the new standard on the consolidated financial statements.	1 January 2019

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

3 Significant accounting policies

3.1 Changes in accounting policies

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements. The Group did not early adopt any of the provision of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and fair value reserve on Islamic sukuk at FVOCI of the current period.

The consequential amendments to IFRS 7 disclosures have also been applied to the current period only. The comparative period notes disclosures repeat those disclosures made in the prior period.

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 3.2.

3 Significant accounting policies (continued)

3.1 Changes in accounting policies (continued)

(a) Classification and measurement of assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018:

Assets	**Previous measurement category under IAS 39**	**New measurement category under IFRS 9**	**Carrying amount under IAS 39 AED'000**	**Reclassi-fications AED'000**	**Remeasure-ments of impairment and other movements AED'000**	**Carrying amount under IFRS 9 AED'000**
Cash and balances with the UAE Central Bank	Amortised cost	Amortised cost	4,577,677	-	-	4,577,677
Due from banks	Amortised cost	Amortised cost	4,880,190	-	(3,480)	4,876,710
Investments in Islamic financing instruments	Amortised cost	Amortised cost	27,449,688	(59,917)	(181,470)	27,208,301
	Amortised cost	FVPL	-	59,917	(40,000)	19,917
Investments in Islamic sukuk	Available-for-sale	FVOCI	2,476,174	(728,241)	6,804	1,754,737
	Amortised cost	Amortised cost	665,269	553,707	2,338	1,221,314
	FVPL	FVPL	585,545	174,534	-	760,079
Investment properties	Non-financial assets	Non-financial assets	1,178,947	-	-	1,178,947
Other assets	Amortised cost	Amortised cost	611,092	-	-	611,092
	FVPL	FVPL	36,218	28,030	-	64,248
	Available-for-sale	FVOCI	28,030	(28,030)	-	-
	Non-financial assets	Non-financial assets	6,481	-	-	6,481
Property and equipment	Non-financial assets	Non-financial assets	173,227	-	-	173,227
			42,668,538	**-**	**(215,808)**	**42,452,730**
Liabilities:						
Customer deposits	Amortised cost	Amortised cost	30,329,118	-	-	30,329,118
Due to banks	Amortised cost	Amortised cost	1,908,507	-	-	1,908,507
Sukuk financing instruments	Amortised cost	Amortised cost	1,836,450	-	-	1,836,450
Other liabilities	Amortised cost	Amortised cost	2,744,205	-	57,598	2,801,803
			36,818,280	**-**	**57,598**	**36,875,878**

3 Significant accounting policies (continued)

3.1 Changes in accounting policies (continued)

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

The following notes explain how applying the new requirements of IFRS 9 led to changes in measurement category of certain financial assets held by the Group as shown in the table above:

a. Due to cash flow characteristics not representing SPPP in accordance with IFRS 9, investments in Islamic financing instruments of AED 59.9 million have been transferred from amortised cost category to FVPL and AED 40 million has been recognized as a fair value loss on remeasurement.

b. Due to realignment of business models in accordance with IFRS 9, investments in Islamic sukuk of AED 301.6 million have been transferred from held-to-maturity category to FVOCI. Fair value gain of AED 14.6 million have been recognised directly in the fair value reserve on Islamic sukuk at FVOCI.

c. Due to realignment of business models in accordance with IFRS 9, investments in Islamic sukuk of AED 855.2 million have been transferred from FVOCI category to amortised cost. Fair value loss of AED 4.5 million has been reclassified from fair value reserve on Islamic sukuk to investments in Islamic sukuk at amortised cost.

d. Due to cash flow characteristics not representing SPPP in accordance with IFRS 9, investments in Islamic sukuk of AED 174.5 million have been transferred from FVOCI category to FVPL and fair value loss of AED 0.6 million has been reclassified from fair value reserve on Islamic sukuk at FVOCI to retained earnings.

e. Due to new classification requirements for financial assets under IFRS 9, AED 28 million of equity investments carried at cost have been transferred from FVOCI category to FVPL in other assets.

(b) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9 at 1 January 2018

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Financial assets	**Impairment loss allowance under IAS 39**	**Remeasure -ment of impairment**	**Impairment loss allowance (ECL) under IFRS 9**
	AED'000	AED'000	AED'000
Due from banks	-	3,480	3,480
Investments in Islamic financing instruments – At amortised	1,926,999	181,470	2,108,469
Investments in Islamic sukuk – At amortised cost	-	2,199	2,199
Investments in Islamic sukuk – At FVOCI	-	7,851	7,851
	1,926,999	195,000	2,121,999
Liabilities			
Other liabilities:			
Provision on off-balance sheet items	-	57,598	57,598
Total	1,926,999	252,598	2,179,597

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities

3.2.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transactions costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and at FVOCI, which results in accounting loss being recognized in profit or loss when an asset is newly originated.

(a) Measurement methods

Amortised cost and effective profit rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i-e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective profit rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective profit rate. Any changes are recognized in profit or loss.

(b) Profit Income

Profit income is calculated by applying the effective profit rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which profit income is calculated by effective profit rate to their amortised cost (i.e. net of the expected credit loss provision).

3.2.2 Classification and subsequent measurement

(a) Financial assets

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost

The classification requirement for financial assets and equity instruments are described below:

Financial assets:

Financial assets are those instruments that meet the definition of a financial liability from the issuer's perspective, such as investments in Islamic financing instruments and investments in Islamic sukuk.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification and subsequent measurement (continued)

(a) Financial assets (continued)

Classification and subsequent measurement of financial assets depend on:

(i) the Group's business model for managing the assets; and
(ii) the cash flow characteristics of the asset.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and profit (the 'SPPP test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic financing arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic financing risks and a profit margin that is consistent with basic financing arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Group classifies its financial assets into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit ('SPPP'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 24. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movement in carrying amount are taken through OCI, except for the recognition of impairment gains and losses, profit income and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Gain/(loss) on investments in Islamic sukuk'. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Gain/(loss) on investments in Islamic sukuk' in the period in which it arise, unless it arises from financial assets that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Profit income from these financial assets is included in 'Income from Islamic financing and sukuk' using the effective profit rate method.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification and subsequent measurement (continued)

(a) Financial assets (continued)

The Group reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(b) Equity instruments:

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares and Tier 1 sukuk.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Profit distribution, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the consolidated income statement.

(c) Financial liabilities

Subsequent to initial recogniation, all financial liabilities are that are not held for trading and are not designated as at FVPL are measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on settlement.

3.2.3 Impairment of financial assets

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial assets that are not measured at FVPL:

- Financial assets that are financing instruments and investments in Islamic sukuk; and
- Islamic financing commitments

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

No impairment loss is recognised on equity investments.

(a) Excepted credit loss impairment model

The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Impairment of financial assets (continued)

(a) Excepted credit loss impairment model (continued)

- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

(b) Measurement of ECL

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

These parameters are generally derived from internally developed statistical models and other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- The probability of default (PD) is an estimate of the likelihood of default over a given time horizon;
- The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and
- The loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

(c) Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

(d) Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

3 Significant accounting policies (continued)

3.2 Financial assets and liabilities (continued)

3.2.3 Impairment of financial assets (continued)

(e) Experienced credit judgement

The Bank's ECL allowance methodology requires the use of experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods. When measuring ECL, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options.

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements. The policy on the write-off of financing transactions remains unchanged.

(f) Expected life

When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

(g) Definition of default

The Bank considers a financial asset to be in default when:
- it is established that due to financial or non-financial reasons the customer is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held); or
- the customer is past due 90 days or more on any material credit obligation to the Bank.

3.2.4 Derecognition

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

3.2.5 Islamic financing commitments

Islamic financing commitments provided by the Group are measured as the amount of the loss allowance and presented separately in other liabilities in the consolidated statement of financial position. For Islamic financing commitments, the loss allowance is recognized as a provision in other liabilities.

Except as described above, the accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied in the Group's audited consolidated financial statements for the year ended 31 December 2017 and corresponding interim reporting period. The condensed consolidated interim financial statements should therefore be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2017.

4 Cash and balances with the UAE Central Bank

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Cash in hand	84,313	129,397
Balances with the UAE Central Bank		
- Current account	889,086	1,135,693
- Certificate of deposits	1,000,000	500,000
- Statutory deposits	2,749,680	2,812,587
	4,723,079	4,577,677

The statutory deposits with the UAE Central Bank are not generally available to finance the day to day operations of the Bank. Cash in hand, current account balances and statutory deposit with the UAE Central Bank are non-profit bearing. Certificate of deposits with the UAE Central Bank carried a profit rate of 1.68% - 1.84% per annum (31 December 2017: 1.2% per annum).

Cash and cash equivalents include the following for the purposes of the condensed consolidated interim statement of cash flows:

	30 June 2018 (Unaudited) AED'000	30 June 2017 (Unaudited) AED'000
Cash and balances with the UAE Central Bank	4,723,079	4,112,990
Due from banks (Note 5)	3,853,480	3,682,568
Due to banks (Note 11)	(2,226,118)	(1,782,228)
	6,350,441	6,013,330
Less: Balances having original maturity of more than 3 months:		
- Statutory deposits with the UAE Central Bank	(2,749,680)	(2,948,841)
- Net due from banks	(270,530)	(1,220,391)
Cash and cash equivalents	3,330,231	1,844,098

5 Due from banks

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Current account with banks (Qard-e-hasan)	479,690	574,092
Export bills – (Murabahah)	2,004,398	1,766,270
Deposits with banks – (Wakalah & Murabahah)	1,369,392	2,539,828
	3,853,480	4,880,190
Less: impairment loss allowance	(5,816)	-
	3,847,664	4,880,190

All due from banks balances are classified at Stage 1 as at 30 June 2018.

6 Investment in Islamic financing instruments

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Investments in Islamic financing instruments		
At amortized cost:		
Murabahah	23,506,269	21,808,761
Ijarah	8,438,043	7,508,009
Mudarabah	-	59,917
	31,944,312	29,376,687
Less: impairment loss allowance	(2,121,962)	(1,926,999)
	29,822,350	27,449,688
At Fair value through profit & loss:		
Mudarabah	19,917	-
Total investments in Islamic financing instruments	29,842,267	27,449,688

Movement in impairment loss allowance:

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
At beginning of the period/year	1,926,999	1,747,392
Cumulative effect of adopting IFRS 9	181,470	-
At beginning of the period/year	2,108,469	1,747,392
Charge for the period/year, net of recoveries/reversals	313,252	838,024
Written off during the period/year, net of write backs	(299,759)	(658,417)
At end of the period/year	2,121,962	1,926,999

Carrying value of Investments in Islamic financing instruments at amortised cost by stage:

	30 June 2018			
	ECL staging			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Investments in Islamic financing instruments	AED'000	AED'000	AED'000	AED'000
At amortised cost	26,960,061	3,552,084	1,432,167	31,944,312

7 Investments in Islamic sukuk

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Investments in Islamic sukuk:		
At Amortised cost	1,582,097	665,269
Less: impairment loss allowance	(2,070)	-
	1,580,027	665,269
At fair value through profit & loss	567,826	585,545
At fair value through other comprehensive income	3,274,362	2,476,174
	5,422,215	3,726,988

All the investments in Islamic sukuk are classified at Stage 1 at 30 June 2018. At 30 June 2018, the fair value of investments in Islamic sukuk at amortised cost was AED 1,539 million (31 December 2017: AED 685 million).

For the six month period ended 30 June 2018, the Group recognised a net fair value loss on investments in Islamic sukuk at fair value through other comprehensive of AED 56.3 million (30 June 2017: a net fair value gain of AED 29.7 million) in other comprehensive income under "fair value reserve on Islamic sukuk at FVOCI".

At 30 June 2018, Islamic sukuk with a market value of AED 1,033 million (31 December 2017: AED 745 million) have been pledged as collateral against investment deposits from financial institutions (Note 11).

At 30 June 2018, the Group held Islamic sukuks with a market value of AED 2.0 billion (31 December 2017: AED 2.1 billion) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these Islamic sukuk are not included in the Group's condensed consolidated interim financial statements.

8 Investment properties

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
At beginning of the period/year	1,178,947	1,186,117
Additions during the period/year	25,872	12,266
Disposals during the period/year	(1,200)	(9,611)
Change in fair value during the period/year	-	(9,825)
At end of the period/year	1,203,619	1,178,947

The carrying value of investment properties represents their fair value as determined by an independent valuation expert at 31 December 2017 (excluding additions during the period) in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The basis for determination of fair value are the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. During the period ended 30 June 2018, no revaluation gain/loss was recognised on investment properties as the management is satisfied that there has been no material change in fair values between 31 December 2017 and 30 June 2018.

9 Property and equipment

The fair value of the Group's buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS") as at 31 December 2016 and as updated on 31 December 2017. During the years ended 31 December 2017 and 31 December 2016, no revaluation gain/loss was recognised on buildings as the amount was not considered significant. The Group will obtain the independent valuations at 31 December 2018 and any resultant significant revaluation gain/loss on buildings will be reflected in the annual consolidated financial statements for the year ending 31 December 2018.

10 Customer deposits

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Current accounts (Qard-e-Hasan)	8,974,150	9,303,241
Term accounts (Wakalah, Murabahah & Mudarabah)	13,068,675	11,853,136
Savings accounts (Mudarabah)	4,621,012	4,176,547
Escrow accounts (Qard-e-Hasan & Mudarabah)	3,954,413	4,737,049
Margin accounts	232,886	259,145
	30,851,136	30,329,118

11 Due to banks

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Investment deposits - (Wakalah & Murabahah)	2,123,998	1,611,647
Current accounts - (Qard-e-Hasan)	102,120	296,860
	2,226,118	1,908,507

At 30 June 2018, Islamic sukuk with a market value of AED 1,033 million (31 December 2017: AED 745 million) have been pledged as collateral against investment deposits of AED 919 million (31 December 2017: AED 650 million) from financial institutions (Note 7).

12 Sukuk financing instruments

In April 2015, the Bank through its Shari'a compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 3 billion ("the Programme"). The terms of the Programme include notional allocation of certain identified assets ("the Co-owned Assets") to Noor Sukuk Company Limited, Cayman Islands ("the Issuer or SPE"), a special purpose entity formed for the issuance of the sukuk. In substance, these co-owned assets shall continue to remain under the control of the Bank and shall continue to be serviced by the Bank.

The analysis of the Sukuk instruments issued by the Group under the Programme is as follows:

Issuer	**Expected annual profit rate**	**Issuance dated**	**Maturity date**	**30 June 2018 (Unaudited)** AED'000	**31 December 2018 (Unaudited)** AED'000
Noor Sukuk Company Limited	2.788%	April 2015	April 2020	1,836,450	1,836,450
Noor Sukuk Company Limited	4.471%	April 2018	April 2023	1,836,700	-
				3,673,150	1,836,450

These Sukuk were listed on NASDAQ Dubai on the date of issuance and are expected to pay the profit to the sukuk holders semi-annually.

13 Share capital

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Authorised share capital:		
6,500 million shares (2017: 6,500 million shares) of AED 1 each	6,500,000	6,500,000
Issued and fully paid up share capital:		
3,574.9 million shares (2017: 3,574.9 million shares) of AED 1 each	3,574,895	3,574,895

(i) During the year ended 31 December 2017, the Bank's Articles of Association were amended and in accordance with the new articles, the authorised share capital of the Bank was increased to AED 6,500 million comprising of 6,500 million shares with a nominal value of AED 1 per share.

(ii) During the year ended 31 December 2017, 217 million shares were issued at par value and subscribed to by NIG. The share capital issued is fully paid up and was approved by the Board of Directors, the shareholders in the General Meeting of the Bank and the UAE Central Bank.

14 Tier 1 sukuk

In May 2016, the Bank issued a Shari'a compliant Tier 1 sukuk through an SPE, Noor Tier 1 sukuk Limited, ("the issuer") amounting to USD 500 million (AED 1,836.5 million) at a par value of USD 1,000 (AED 3,673) per sukuk.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. These sukuk are expected to pay profit semi-annually based on 5 year mid-swap rate + 4.91% at the time of issuance on 1st June and 1st December of each year ("the profit payment date") commencing from 1st December 2016. The expected profit rate will be reset to a new fixed rate on the basis of the then prevailing 5 year mid-swap rate + 4.91% on 1 June 2021 ("the first reset date") and every 5 years thereafter. These sukuk are listed on NASDAQ Dubai and callable by the Bank on 1st June 2021 ("the first call date") or any profit payment date thereafter subject to certain redemption conditions. The net proceeds of Tier 1 are invested by the Bank in its general business activities on a co-mingling basis.

At the issuer's sole discretion, it may elect not to make any Mudaraba profit distributions expected and the event is not considered an event of default. In such event, the Mudaraba profit will not be accumulated but forfeited to the issuer. If the issuer makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

15 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Federal Law No. (2) of 2015 and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount equal to 10% of the net profit for the year will be transferred to the statutory reserve at 31 December 2018 based on the results of the Bank for the year then ending. This reserve is not available for distribution.

16 Income from Islamic financing and sukuk

	Six month period ended 30 June	
	2018 (Unaudited) AED'000	2017 (Unaudited) AED'000
Income from Islamic financing:		
Murabahah	669,226	533,711
Ijarah	139,167	123,104
Wakalah	5,947	22,961
	814,340	679,776
Profit income on Islamic sukuk	98,626	71,805
Total income from Islamic financing and sukuk	912,966	751,581

17 Depositors' and sukuk holders' share of profit

	Six month period ended 30 June	
	2018 (Unaudited) AED'000	2017 (Unaudited) AED'000
Term accounts	211,517	126,573
Savings & Escrow accounts	32,564	28,805
Sukuk holders' profit on sukuk issued	42,518	26,823
	286,599	182,201

18 Fee and other income, net of charges

	Six month period ended 30 June	
	2018 (Unaudited) AED'000	2017 (Unaudited) AED'000
Transactional and deposit related fees	110,185	97,790
Net foreign exchange income	88,527	138,755
Facility syndication and processing fees	111,371	82,090
Trade services related fees	25,364	46,276
Fair value (loss)/gain on Islamic derivatives	(3,042)	15,558
Fees from credit cards	20,672	13,250
Other income	6,170	6,298
	359,247	400,017

19 Gain on investments in Islamic sukuk

	Six month period ended 30 June 2018 (Unaudited) AED'000	2017 (Unaudited) AED'000
At FVPL	(2,355)	23,096
At FVOCI – realised gain	5,690	24,898
	3,335	47,994

20 Impairment charge on financial assets, net

	Six month period ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Impairment charge on financial assets, financing commitments and financial guarantee contracts, net of reversals/recoveries:	AED'000	AED'000
Due from banks	2,336	-
Investments in Islamic financing instruments	313,252	463,330
Investments in Islamic sukuk at amortised cost	(129)	-
Investments in Islamic sukuk at FVOCI	3,239	-
Financing commitments and financial guarantee contracts	2,414	-
	321,112	463,330

21 Related party balances and transactions

The Group, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, 'Related party Disclosures' at commercial terms and profit rates. Other related parties include shareholders of the Bank and other entities controlled by the Board members of the Bank. Balances and transactions with related parties are as follows:

As at 30 June 2018	**The parent** AED'000	**Directors and key management personnel** AED'000	**Associate and other related parties** AED'000	**Total** AED'000
Related party balances:				
Assets:				
Investments in Islamic financing instruments	-	50,825	-	50,825
Due from related parties	6,734	-	16,281	23,015
Accrued income from Islamic financing	-	1,054	-	1,054
Equity investments in related companies	-	-	26,530	26,530
Investment in associate	-	-	1,500	1,500
Liabilities:				
Customer deposits	20,112	148,743	579,639	748,494
Due to related parties	-	-	93	93
Accrued depositors' share of profit	-	1,220	2,709	3,929
Off-balance sheet:				
Contingent liabilities	-	75,160	1,443	76,603

21 Related party balances and transactions (continued)

Period ended 30 June 2018	**The parent**	**Directors and key management personnel**	**Associate and other related parties**	**Total**
	AED'000	AED'000	AED'000	AED'000
Related party transactions:				
Income from Islamic financing	-	995	6,938	7,933
Depositors' share of profit	-	1,414	6,731	8,145
Staff costs recharged to the Bank	-	-	47,166	47,166
Remuneration	-	19,197	-	19,197
Fee and other income	-	391	35,327	35,718
Provision for employees' end of service benefits transferred to the Bank	-	-	5,256	5,256

As at 31 December 2017	**The parent**	**Directors and key management personnel**	**Associate and other related parties**	**Total**
	AED'000	AED'000	AED'000	AED'000
Related party balances:				
Assets:				
Investments in Islamic financing instruments	-	33,419	226,862	260,281
Due from related parties	379,717	-	20,996	400,713
Accrued income from Islamic financing instruments	-	3,446	94	3,540
Equity investments in related companies	-	-	26,530	26,530
Investment in associate	-	-	1,500	1,500
Liabilities:				
Customer deposits	392,186	136,217	545,123	1,073,526
Accrued depositors' share of profit	-	2,718	3,159	5,877
Due to related parties	-	-	8,065	8,065
Off-balance sheet:				
Contingent liabilities	-	87,589	841	88,430

Period ended 30 June 2017	**The parent**	**Directors and key management personnel**	**Associate and other related parties**	**Total**
	AED'000	AED'000	AED'000	AED'000
Related party transactions:				
Income from Islamic financing	2,902	-	22,408	25,310
Depositors' share of profit	-	1,612	1,364	2,976
Staff costs recharged to the Bank	-	-	68,751	68,751
Expenses recharged by the Bank	-	-	5,272	5,272
Remuneration	-	10,200	-	10,200
Fee and other income	3,768	18	32,735	36,521

22 Contingencies and commitments

(a) Contingent liabilities

	30 June 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Letters of credit	350,048	368,845
Guarantees	2,422,269	2,132,572
Undrawn credit commitments – Revocable	4,631,955	3,827,026
Undrawn credit commitments – Irrevocable	2,919,612	2,604,017
	10,323,884	8,932,460

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Group monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(b) Capital commitments

At 30 June 2018, the Group has capital commitments of AED 21.3 million (31 December 2017: AED 5.2 million) mainly relating to purchase of furniture, fixtures, computer equipment and development/upgrading of software.

23 Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, 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 in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

23 Fair value hierarchy (continued)

- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not 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.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The financial instruments and non-financial assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000
As at 30 June 2018			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified at FVOCI	3,047,545	226,817	-
- Classified at FVPL	567,826	-	-
Investments in Islamic financing instruments	-	19,917	-
Fair value of Islamic derivatives	-	5,282	-
	3,615,371	252,016	-
Financial liabilities at fair value			
Fair value of Islamic derivatives	-	21,834	-
As at 31 December 2017			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified at FVOCI	2,476,174	-	-
- Classified at FVPL	326,261	259,284	-
Fair value of Islamic derivatives	-	36,218	-
	2,802,435	295,502	-
Financial liabilities at fair value			
Fair value of Islamic derivatives	-	10,556	-

At 30 June 2018 and 31 December 2017, the carrying value of the Group's financial assets and liabilities measured at amortised cost approximate their fair values.

The different levels for fair values of non-financial assets have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). For investment properties and buildings, the fair values have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot. (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

23 Fair value hierarchy (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 30 June 2018			
Non-financial assets at fair value			
Investment properties	-	1,205,673	-
Building	-	120,770	-
	-	1,326,443	-
As at 31 December 2017			
Non-financial assets at fair value			
Investment properties	-	1,178,947	-
Building	-	124,937	-
	-	1,303,884	-

At 30 June 2018 and 31 December 2017, the carrying value of the Group's other assets and liabilities measured at amortised cost, approximate their fair values. There have been no transfers of financial assets and non-financial assets between Level 1 and Level 2 during the six month period ended 30 June 2018 and year ended 31 December 2017.

24 Financial risk management

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

25 Capital management and capital adequacy as per Basel III requirement

The Group manages its capital considering both regulatory and economic capital. The Group calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets. This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel III Accord.

The following are the minimum requirements:

	2018	2017
Common equity tier 1 ratio*	8.875%	8.25%
Tier 1 capital ratio*	10.375%	9.75%
Capital adequacy ratio*	12.375%	11.75%

* Including capital conservation buffer requirement of 1.875% (2017: 1.25%).

	30 June 2018 AED'000	31 December 2017 AED'000
CET 1 Capital		
Share capital	3,574,895	3,574,895
Statutory reserve	286,779	286,779
Retained earnings/(accumulated losses)	12,542	40,450
Fair value reserve on Islamic sukuk at FVOCI	(43,791)	(7,250)
	3,830,425	3,894,874
Additional Tier 1 (AT1) Capital		
Tier 1 sukuk	1,836,500	1,836,500
Total Tier 1 Capital	5,666,925	5,731,374
Tier 2 Capital		
General provision	420,986	386,853
Total Tier 2 Capital	420,986	386,853
Total regulatory capital	6,087,911	6,118,227
Risk weighted assets		
Credit risk	33,678,889	30,948,232
Market risk	822,778	269,044
Operational risk	2,964,434	2,964,434
Risk weighted assets	37,466,101	34,181,710
Common equity tier 1 ratio	10.22%	11.39%
Tier 1 capital ratio	15.13%	16.77%
Capital adequacy ratio	16.25%	17.90%

26 Segmental reporting

Reportable segments are identified on the basis of internal reports about the components of the Bank that are regularly reviewed by the Bank's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Bank's reportable segments are organised into three major segments as follows:

- Corporate banking – Principally handling financing/ trade facilities and deposit related services for medium and large sized corporate and institutional customers.
- Retail banking – Principally serves individuals, high net worth customers and small sized businesses.
- Treasury and others – Treasury comprises of activities to manage the Bank's overall liquidity and market risk and provides treasury services to customers. Others comprise of functions other than above core lines of business.

The accounting policies of the reportable segments are the same as the Bank's accounting policies. Segment operating income represents the profit earned by each segment without allocation of expenses and impairment charge on Islamic financing instruments.

Six month period ended 30 June 2018 (Unaudited)	**Corporate banking** AED'000	**Retail banking** AED'000	**Treasury and others** AED'000	**Total** AED'000
Net income from Islamic financing and sukuk	282,103	222,321	121,943	626,367
Fee and other income, net of charges	142,327	186,991	33,264	362,582
Total income	424,430	409,312	155,207	988,949
Total expenses				(346,960)
Operating profit before impairment charge on financial assets				641,989
Impairment charge on financial assets, net				(321,112)
Profit for the period				320,877
As at 30 June 2018 (Unaudited)				
Segment assets	23,514,897	10,660,278	11,417,214	45,592,389
Segment liabilities	18,755,077	12,560,484	8,492,461	39,808,022

26 Segmental reporting (continued)

Six month period ended 30 June 2017 (Unaudited)	**Corporate banking** AED'000	**Retail banking** AED'000	**Treasury and others** AED'000	**Total** AED'000
Net income from Islamic financing and sukuk	245,177	234,427	89,775	569,379
Fee and other income, net of charges	146,926	186,794	114,291	448,011
Total income	392,103	421,221	204,066	1,017,390
Total expenses				(365,016)
Operating profit before impairment charge on financial assets				652,375
Impairment charge on financial assets, net				(463,330)
Impairment loss on equity investments				(7,000)
Profit for the period				182,045
As at 31 December 2017 (Audited)				
Segment assets	21,449,347	10,057,950	11,161,241	42,668,538
Segment liabilities	18,590,196	12,260,598	5,967,486	36,818,280

27 Comparative figures

Certain comparative figures have been regrouped or reclassified to conform to the presentation adopted in these consolidated financial statements.

During the period ended 30 June 2018, the Bank has reassessed the criteria it has applied for definition of Key Management Personnel in accordance with IAS 24, 'Related party Disclosures'. Comparative figures have been restated accordingly.