NOOR BANK

MID-YEAR REPORT

2017 CONSOLIDATED FINANCIALS

Noor Bank PJSC

Condensed consolidated interim financial statements for the six month period ended 30 June 2017

Noor Bank PJSC

Condensed consolidated interim financial statements for the six month period ended 30 June 2017

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 2017 and the related condensed consolidated interim income statement and condensed consolidated interim statement of comprehensive income for the three month and six month periods then ended, and condensed consolidated interim statements 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
6 August 2017

Douglas O'Mahony
Registered Auditor Number 834
Dubai, United Arab Emirates

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

Condensed consolidated interim statement of financial position

As at 30 June 2017

	Note	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	4,112,990	3,376,938
Due from banks	5	3,682,568	5,525,828
Investment in Islamic financing instruments	6	27,802,728	25,918,388
Investments in Islamic sukuk	7	2,628,282	4,056,681
Investment properties	8	1,181,523	1,186,117
Other assets		324,763	324,554
Property and equipment	9	184,569	193,720
Total assets		39,917,423	40,582,226
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	10	1,782,228	2,553,730
Customer deposits	11	29,643,476	29,834,161
Sukuk financing instruments	12	1,836,450	1,836,450
Other liabilities		1,151,002	1,007,946
Total liabilities		34,413,156	35,232,287
EQUITY			
Share capital	13	3,357,895	3,357,895
Tier 1 sukuk	14	1,836,500	1,836,500
Statutory reserve	15	249,690	249,690
Revaluation surplus on land and buildings	9	120,325	121,767
Fair value reserve on available-for-sale Islamic sukuk		(4,783)	(34,454)
Accumulated losses		(55,360)	(181,459)
Equity		5,504,267	5,349,939
Total liabilities and equity		39,917,423	40,582,226

These condensed consolidated interim financial statements were approved by the Board of Directors on 2 August 2017 and signed on its behalf by:

…………………………
Director

…………………………
Director

Condensed consolidated interim income statement (Unaudited)

for the six month period ended 30 June 2017

		Three month period ended 30 June		Six month period ended 30 June	
		2017	2016	2017	2016
	Note	AED'000	AED'000	AED'000	AED'000
Operating income					
Income from Islamic financing and sukuk	16	380,623	323,838	751,624	623,029
Depositors' and sukuk holders' share of profit	17	(81,676)	(73,041)	(164,162)	(162,260)
Net income from Islamic financing and sukuk		298,947	250,797	587,462	460,769
Fee and other income, net of charges	18	217,425	153,255	379,657	311,689
Gain on investments in Islamic sukuk	19	40,713	38,368	50,272	28,196
Total operating income		557,085	442,420	1,017,391	800,654
Operating expenses					
Staff costs		(138,571)	(128,666)	(276,167)	(259,031)
General and administration expenses		(37,232)	(37,429)	(73,409)	(72,414)
Depreciation		(8,009)	(6,509)	(15,440)	(12,812)
Total operating expenses		(183,812)	(172,604)	(365,016)	(344,257)
Operating profit before impairment on investment in Islamic financing instruments		373,273	269,816	652,375	456,397
Impairment charge on Islamic financing instruments, net	6	(286,573)	(128,849)	(463,330)	(206,014)
Impairment loss on equity investments		(7,000)	-	(7,000)	-
Profit for the period		79,700	140,967	182,045	250,383

Condensed consolidated interim statement of comprehensive income (Unaudited)

for the six month period ended 30 June 2017

		Three month period ended 30 June		Six month period ended 30 June	
	Note	**2017 AED'000**	**2016 AED'000**	**2017 AED'000**	**2016 AED'000**
Profit for the period		79,700	140,967	182,045	250,383
Other comprehensive income:					
Items that may be subsequently reclassified to income statement:					
Fair value reserve on available-for-sale Islamic sukuk					
- Net changes in fair value	7	17,442	26,718	54,569	30,189
- Net realised gain reclassified to income statement	19	(27,337)	(26,566)	(24,898)	(18,667)
Total other comprehensive (loss)/income		(9,895)	152	29,671	11,522
Total comprehensive income for the period		69,805	141,119	211,716	261,905

Condensed consolidated interim statement of changes in equity

for the six month period ended 30 June 2017

	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 AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2016	3,357,895	-	213,000	124,650	(5,650)	(177,295)	3,512,600
Profit for the period	-	-	-	-	-	250,383	250,383
Other comprehensive income for the period	-	-	-	-	11,522	-	11,522
Total comprehensive income for the period	-	-	-	-	11,522	250,383	261,905
Other equity movements							
Tier 1 sukuk issuance (Note 14)	-	1,836,500	-	-	-	-	1,836,500
Tier 1 sukuk issuance cost	-	-	-	-	-	(11,239)	(11,239)
Tier 1 sukuk purchased	-	(6,502)	-	-	-	-	(6,502)
Board of directors' remuneration	-	-	-	-	-	(5,474)	(5,474)
Transfer from surplus on revaluation of building to accumulated losses	-	-	-	(1,442)	-	1,442	-
Dividends paid for 2015 (Note 13)	-	-	-	-	-	(268,632)	(268,632)
At 30 June 2016 (unaudited)	3,357,895	1,829,998	213,000	123,208	5,872	(210,815)	5,319,158
Profit for the period	-	-	-	-	-	121,995	121,995
Other comprehensive loss for the period	-	-	-	-	(40,326)	-	(40,326)
Total comprehensive income for the period	-	-	-	-	(40,326)	121,995	81,669
Other equity movements							
Tier 1 sukuk sold	-	6,502	-	-	-	-	6,502
Tier 1 sukuk profit distribution (Note 14)	-	-	-	-	-	(57,390)	(57,390)
Transfer to statutory reserve (Note 15)	-	-	36,690	-	-	(36,690)	-
Transfer from revaluation surplus on land and buildings to accumulated losses	-	-	-	(1,441)	-	1,441	-
At 31 December 2016 (audited)	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 land and buildings to accumulated losses	-	-	-	(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

Condensed consolidated interim statement of cash flows (Unaudited)

for the six month period ended 30 June 2017

	Note	Six month period ended 30 June 2017 AED'000	2016 AED'000
Operating activities			
Profit for the period		182,045	250,383
Adjustments for:			
Impairment charge on Islamic financing instruments, net	6	463,330	206,014
Impairment loss on equity investments	19	7,000	-
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		12,322	(13,421)
Amortisation of (discount)/premium on held-to-maturity Islamic sukuk		(217)	666
Gain on disposal of held-to-maturity investments		(3,421)	-
Gain on investments in Islamic sukuk	19	(46,851)	(28,196)
Loss/(gain) on disposal of investment properties	18	641	(2,183)
Depreciation of property and equipment		15,440	12,812
Provision for employees' end of service benfits		3,641	-
Operating cash flows before changes in operating assets and liabilities		633,930	426,075
Changes in operating assets and liabilities:			
Statutory deposit with the UAE Central Bank	4	(208,453)	(99,062)
Due from banks	5	888,944	774,780
Investment in Islamic financing instruments	6	(2,349,006)	(619,892)
Net proceeds from disposal of investments in Islamic sukuk – held-for-trading		238,161	(400,752)
Other assets		(7,209)	(630)
Due to banks	10	(327,999)	(44,897)
Customer deposits	11	(190,685)	(3,132,603)
Payment of employees' end of service benefits		(2,056)	
Other liabilities		141,471	(33,581)
Net cash used in operating activities		(1,182,902)	(3,130,562)
Investing activities			
Purchase of available-for-sale Islamic sukuk		(5,541,957)	(7,158,271)
Proceeds from sale of available-for-sale Islamic sukuk		6,758,672	6,374,837
Purchase of held-to-maturity Islamic sukuk	7	-	(164,661)
Proceeds from disposal of held-to-maturity Islamic sukuk		53,466	-
Proceeds from disposal of investment properties		5,289	86,996
Proceeds from maturity of certificate of deposits	4	-	1,400,000
Additions to property and equipment		(6,072)	(4,945)
Net cash generated from investing activities		1,269,398	533,956
Financing activities			
Acquisition of sukuk financing instruments		-	(21,872)
Repayment of Wakalah term deposits		-	(544,192)
Issue of Tier 1 sukuk		-	1,836,450
Acquisition of Tier 1 sukuk		-	(6,452)
Tier 1 sukuk issuance cost		-	(11,239)
Board of directors' remuneration payment		-	(5,474)
Dividend payment		-	(268,632)
Tier 1 sukuk profit distribution		(57,388)	-
Net cash (used in)/generated from financing activities		(57,388)	978,589
Net increase/(decrease) in cash and cash equivalents		29,108	(1,618,017)
Cash and cash equivalents at beginning of the period		1,827,312	4,149,593
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(12,322)	13,421
Cash and cash equivalents at end of the period	4	1,844,098	2,544,997

The notes on pages 7 to 23 form an integral part of the condensed consolidated interim financial statements

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.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Bank has come into effect from 1 July 2015. The Bank is in compliance with the provisions of UAE Federal Law No 2 of 2015 (the Companies Law)

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 Fatwa and Shari'a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

The Bank has two fully owned special purpose entities ("SPE"), Noor Sukuk Company Limited (Note 12), incorporated in April 2015 and Noor Tier 1 Sukuk Limited (Note 14) incorporated in August 2015.

The condensed consolidated interim financial statements for the period ended 30 June 2017 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 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 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board (IASB).

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 and liabilities held for trading;
- Investments in Islamic sukuk classified as available-for-sale and fair value through income statement;
- Investment properties;
- Buildings classified under property and equipment; and
- Islamic derivatives.

2 Basis of preparation (continued)

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.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

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 2017

New standards and significant amendments to standards applicable to the Group	Effective date
Amendments to IAS 7, 'Statement of cash flows' on disclosure initiative These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities including those from cash flows and other non-cash changes. The new requirement typically entails a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.	1 January 2017

There is no material impact of the above amendments on the condensed consolidated interim financial statements of the Group.

There are no other applicable IFRSs or IFRIC interpretations that were effective for the first time for the accounting period beginning on 1 January 2017 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, amendments to published standards and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017

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. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. **Amendment to IFRS 15, 'Revenue from contracts with customers'** These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.	1 January 2018
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018

2 Basis of preparation (continued)

2.5 Changes in accounting policies and disclosures (continued)

(b) New standards, amendments to published standards and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2017 *(continued)*

New standards and significant amendments to standards	Effective date
IFRS 9, 'Financial instruments' (continued) The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes.	1 January 2018
Amendment to IAS 40, Investment property' relating to transfers of investment property These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.	1 January 2018
IFRS 16, 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	1 January 2019

As of date of issuance of these condensed consolidated interim financial statements, management are still in the process of evaluating the impact of these new and revised standards on the condensed consolidated interim financial statements. The Bank's focus continues to be on developing the impairment models and processes which are needed for the parallel run during 2017 in order to be fully compliant with IFRS 9. The Bank believes that once it finalises the impairment model and processes, it will be in a better position to assess the potential impact of IFRS 9 on the condensed consolidated interim financial statements.

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 accounting period beginning on 1 January 2017 that would be expected to have a material impact on the condensed consolidated interim financial statements of the Group.

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3 Significant accounting policies

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 2016 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 2016.

4 Cash and balances with the UAE Central Bank

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Cash in hand	147,069	155,075
Balances with the UAE Central Bank		
- Current account	1,017,080	481,475
- Statutory deposits	2,948,841	2,740,388
	4,112,990	3,376,938

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.

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

	30 June 2017 (Unaudited) AED'000	30 June 2016 (Unaudited) AED'000
Cash and balances with the UAE Central Bank	4,112,990	3,554,554
Due from banks (Note 5)	3,682,568	5,951,730
Due to banks (Note 10)	(1,782,228)	(1,472,250)
	6,013,330	8,034,034
Less: Statutory deposits with the UAE Central Bank	(2,948,841)	(2,582,442)
Less: Balances having original maturity of more than 3 months:		
- Certificate of deposits	-	(300,000)
- Net due from banks	(1,220,391)	(2,606,595)
Cash and cash equivalents	1,844,098	2,544,997

5 Due from banks

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Current account with banks	336,737	866,522
Export bills	1,381,408	1,076,026
Deposits with banks	1,964,423	3,583,280
	3,682,568	5,525,828

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6 Investment in Islamic financing instruments

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Mudarabah	64,271	64,271
Ijarah	7,871,590	7,004,957
Murabahah	21,849,012	20,596,552
Gross investment in Islamic financing instruments	29,784,873	27,665,780
Less : allowance for impairment	(1,982,145)	(1,747,392)
Net investment in Islamic financing instruments	27,802,728	25,918,388

Movement in allowance for impairment:

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
At beginning of the period/year	1,747,392	1,302,145
Charge for the period/year, net	463,330	645,032
	2,210,722	1,947,177
Written off during the period/year	(228,577)	(199,785)
At end of the period/year	1,982,145	1,747,392

7 Investments in Islamic sukuk

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Held-for-trading	612,560	828,768
Available-for-sale	1,240,641	2,402,787
Held-to-maturity	775,081	825,126
	2,628,282	4,056,681

At 30 June 2017, the fair value of the held to maturity Islamic sukuk portfolio was AED 796 million (31 December 2016: AED 854 million).

For the six month period ended 30 June 2017, the Group recognised a net fair value gain on available-for-sale investments in Islamic sukuk of AED 29.7 million (30 June 2016: AED 11.5 million) in other comprehensive income under "fair value reserve on available-for-sale Islamic sukuk".

At 31 December 2016, Islamic sukuk with a market value of AED 627 million had been pledged as collateral against an investment deposit from a financial institution (Note 10).

At 30 June 2017, the Group held Islamic sukuks with a market value of AED 2.2 billion (31 December 2016: AED 2.0 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 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
At beginning of the period/year	1,186,117	1,231,715
Additions during the period/year	1,336	44,865
Disposals during the period/year	(5,930)	(90,463)
At end of the period/year	1,181,523	1,186,117

The carrying value of investment properties represents their fair value as determined by an independent valuation expert as of 31 December 2016 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 years ended 31 December 2016 and 31 December 2015, no revaluation gain/loss was recognised on investment properties as the amount was not significant. The Directors are satisfied that there has been no material change in fair values between 31 December 2016 and 30 June 2017. The Group will obtain independent valuations at 31 December 2017 and any significant resultant gain/loss on investment properties will be reflected in the annual consolidated financial statements for the year ending 31 December 2017.

9 Property and equipment

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

10 Due to banks

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Investment deposits	1,739,385	1,941,421
Current accounts	42,843	612,309
	1,782,228	2,553,730

At 31 December 2016, Islamic sukuk with a market value of AED 627 million had been pledged as collateral against an investment deposit of AED 588 million obtained from a financial institution (Note 7).

11 Customer deposits

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Wakalah - term	9,399,454	9,916,616
Mudarabah - savings	9,305,393	9,170,151
Qard-E-Hasan (demand accounts)	10,273,889	9,980,945
Mudarabah - term	347,902	492,447
Margin accounts	316,838	274,002
	29,643,476	29,834,161

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"). As a part of the Programme, the first series of the trust certificates amounting to USD 500 million (AED 1,836.5 million) were issued and listed on NASDAQ Dubai on 29 April 2015.

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 cntinue to remain under the control of the Bank and shall continue to be serviced by the Bank.

These sukuk will mature in five years and are expected to pay profit to the sukuk holders semi-annually based on 5 year mid-swap rate + 1.3% at the time of issuance.

13 Share capital

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Authorised, issued and fully paid up share capital:		
3,357.9 million shares (2016: 3,357.9 million shares) of AED 1 each	3,357,895	3,357,895

During the year ended 31 December 2016, the proposed dividend for the year ended 31 December 2015 was distributed to the shareholders upon their approval in the Annual General Meeting.

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.

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14 Tier 1 sukuk (continued)

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. As at 31 December 2016, the related parties held Tier 1 sukuk amounting to USD 20.7 million (AED 76.2 million) (Note 20).

The net proceeds of Tier 1 are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the Mudaraba pool.

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 2017 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	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000
Income from Islamic financing:		
Wakalah	22,961	17,654
Ijarah	123,104	94,716
Murabahah	533,754	455,512
	679,819	567,882
Profit on Islamic sukuk	71,805	55,147
	751,624	623,029

17 Depositors' and sukuk holders' share of profit

	Six month period ended 30 June	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000
Wakalah - term	122,513	124,320
Mudarabah – savings	10,766	9,794
Mudarabah – term	4,060	2,546
Sukuk holders' profit on Sukuk issued	26,823	25,600
	164,162	162,260

18 Fee and other income, net of charges

	Six month period ended 30 June	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000
Transactional and deposit related fees	97,617	76,936
Net foreign exchange income	120,716	95,698
Facility syndication and processing fees	82,090	85,620
Trade services related fees	46,276	39,458
Fair value gain on Islamic derivatives	16,533	-
Fees from credit cards	13,548	9,391
Other income	3,518	2,403
(Loss)/gain on disposal of investment properties	(641)	2,183
	379,657	311,689

19 Gain on investments in Islamic sukuk

	Six month period ended 30 June	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000
Held for trading	21,953	9,529
Available for sale – realised gain	24,898	18,667
Held-to-maturity – gain on disposal	3,421	-
	50,272	28,196

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20 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 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:				
Investment in Islamic financing instruments	200,000	6,893	1,229,261	1,436,154
Customer deposits	291,371	172,547	206,236	670,154
Accrued income from Islamic financing instruments	1,898	-	10,831	12,729
Accrued depositors' share of profit	-	1,127	2,329	3,456
Due from related parties and investments	3,401	-	84,998	88,399
Due to related parties	-	-	11,849	11,849
Contingent liabilities	-	3,086	10,101	13,187

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

As at 31 December 2016	**The parent**	**Directors and key management personnel**	**Associate and other related parties**	**Total**
	AED'000	AED'000	AED'000	AED'000
Related party balances:				
Investment in Islamic financing instruments	-	13,486	630,028	643,514
Customer deposits	118,760	89,066	287,226	495,052
Accrued income from Islamic financing instruments	-	1,433	1,063	2,496
Accrued depositors' share of profit	-	111	4,755	4,866
Due from related parties and investments	254	-	69,923	70,177
Due to related parties	-	-	9,037	9,037
Tier 1 sukuk holding (Note 14)	66,880	-	9,356	76,236
Contingent liabilities	-	4,100	8,823	12,923

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20 Related party balances and transactions (continued)

Period ended 30 June 2016	**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	-	97	10,602	10,699
Depositors' share of profit	-	-	1,518	1,518
Staff costs recharged to the Bank	-	-	61,415	61,415
Remuneration	-	33,934	-	33,934
Fee and other income	-	-	31,565	31,565

21 Contingencies and commitments

(a) Contingent liabilities

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Letters of credit	303,520	263,927
Guarantees	2,368,101	2,520,668
Undrawn credit commitments – Revocable	2,604,886	5,757,186
Undrawn credit commitments – Irrevocable	2,512,136	2,859,819
	7,788,643	11,401,600

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.

21 Contingencies and commitments (continued)

(b) Capital commitments

At 30 June 2017, the Group has capital commitments of AED 5.1 million (31 December 2016: AED 3.9 million) mainly relating to purchase of furniture, fixtures, computer equipment and development/upgrading of software.

22 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.
- 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 2017			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as available-for-sale	1,240,641	-	-
- Classified as held for trading	612,560	-	-
Promise to buy or sell currency	-	24,744	-
	1,853,201	24,744	-
Financial liabilities at fair value			
Promise to buy or sell currency	-	4,812	-
As at 31 December 2016			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as available-for-sale	2,402,787	-	-
- Classified as held for trading	828,768	-	-
Promise to buy or sell currency	-	16,225	-
	3,231,555	16,225	-
Financial liabilities at fair value			
Promise to buy or sell currency	-	54,714	-

22 Fair value hierarchy (continued)

At 30 June 2017 and 31 December 2016, 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).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 30 June 2017			
Non-financial assets at fair value			
Investment properties	-	1,181,523	-
Buildings	-	129,104	-
	-	1,310,627	-
As at 31 December 2016			
Non-financial assets at fair value			
Investment properties	-	1,186,117	-
Buildings	-	133,271	-
	-	1,319,388	-

At 30 June 2017 and 31 December 2016, 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 2017 and year ended 31 December 2016.

23 Capital management and capital adequacy as per Basel II 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 which is currently set at a minimum of 12% (2016: 12%). This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel II Accord as follows:

	30 June 2017 AED'000	31 December 2016 AED'000
Tier I capital		
Share capital	3,357,895	3,357,895
Tier 1 sukuk	1,836,500	1,836,500
Legal reserves	249,690	249,690
Accumulated losses	(55,360)	(181,459)
Less: Other equity investments	(10,000)	(13,500)
	5,378,725	5,249,126
Tier II capital		
Collective impairment provision	375,889	364,790
Asset revaluation reserve	(4,783)	(34,454)
Less: Other equity investments	(10,000)	(13,500)
	361,106	316,836
Deductions from Tier I & Tier II Capital		
Investment in other equity investments	-	-
Total regulatory capital	5,739,831	5,565,962
Risk weighted assets		
Credit risk	30,071,121	29,183,223
Market risk	393,168	514,761
Operational risk	2,568,854	2,568,854
Total risk weighted assets	33,033,143	32,266,838
Capital adequacy ratio on regulatory capital	17.38%	17.25%
Risk asset ratio on Tier 1 capital	16.28%	16.27%

24 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value profit rate risk, cash flow profit rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016.

There have been no changes in the risk management department or in any risk management policies since the year end.

25 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:

- Personal and business banking – Principally serves individuals, high net worth customers and small sized businesses.
- Corporate banking – Principally handling financing/ trade facilities and deposit related services for medium and large sized corporate and institutional customers.
- 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 2017 (Unaudited)	**Personal and business banking** AED'000	**Corporate banking** AED'000	**Treasury and others** AED'000	**Total** AED'000
Net income from Islamic financing and sukuk	234,427	245,177	107,858	587,462
Fee and other income, net of charges	186,794	146,926	96,209	429,929
Total income	421,221	392,103	204,067	1,017,391
Total expenses				(365,016)
Operating profit before impairment on investment in Islamic financing instruments				652,375
Impairment charge on Islamic financing instruments, net				(463,330)
Impairment loss on equity investments				(7,000)
Profit for the period				182,045
As at 30 June 2017 (Unaudited)				
Segment assets	9,716,371	21,150,586	9,050,466	39,917,423
Segment liabilities	12,809,235	17,595,722	4,008,199	34,413,156

25 Segmental reporting (continued)

Six month period ended 30 June 2016 (Unaudited)	**Personal and business banking** AED'000	**Corporate banking** AED'000	**Treasury and others** AED'000	**Total** AED'000
Net income from Islamic financing and sukuk	202,944	169,278	88,547	460,769
Fee and other income, net of charges	157,571	169,767	12,547	339,885
Total income	360,515	339,045	101,094	800,654
Total expenses				(344,257)
Operating profit before impairment on investment in Islamic financing instruments				456,397
Impairment charge on Islamic financing instruments, net				(206,014)
Profit for the period				250,383
As at 31 December 2016 (Audited)				
Segment assets	9,584,442	20,683,964	10,313,820	40,582,226
Segment liabilities	11,826,872	18,379,380	5,026,035	35,232,287

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