

Bank of Sharjah P.J.S.C.

**Review report and
Condensed consolidated interim financial information
for the six-month period ended 30 June 2020**

Bank of Sharjah P.J.S.C.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**The Board of Directors
Bank of Sharjah PJSC
Sharjah
United Arab Emirates**

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of **Bank of Sharjah PJSC** (the “Bank”) **and its subsidiaries** (collectively referred as the “Group”), as at 30 June 2020, and the related condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34: Interim financial reporting (“IAS 34”). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors of Bank of Sharjah PJSC (continued)

Other matter

The consolidated financial statements as at 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those consolidated statements on 8 July 2020. The condensed consolidated interim financial information for the period ended 30 June 2019 was reviewed by another auditor who expressed an unmodified conclusion on this information on 3 August 2019.

Deloitte & Touche (M.E.)

A handwritten signature in black ink, appearing to read "Akbar Ahmad".

Akbar Ahmad
Registration No. 1141
28 October 2020
Dubai
United Arab Emirates

Bank of Sharjah P.J.S.C.
Condensed consolidated interim statement of financial position
As at 30 June

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| | Notes | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|--|-------|---|---|
| ASSETS | | | |
| Cash and balances with central banks | 6 | 5,527,845 | 5,808,927 |
| Deposits and balances due from banks | 7 | 209,489 | 350,287 |
| Reverse-repo placements | 8 | 190,390 | 457,291 |
| Loans and advances, net | 9 | 19,197,506 | 17,735,756 |
| Other financial assets measured at fair value | 10 | 513,599 | 619,478 |
| Other financial assets measured at amortised cost | 10 | 2,387,154 | 452,219 |
| Investment properties | | 806,226 | 756,037 |
| Goodwill and other intangibles | | 135,960 | 136,587 |
| Assets acquired in settlement of debt | | 4,050,175 | 4,044,572 |
| Other assets | 11 | 1,029,364 | 994,831 |
| Derivative assets held for risk management | | 53,689 | 20,400 |
| Property and equipment | | 348,317 | 370,920 |
| Total assets | | 34,449,714 | 31,747,305 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Customers' deposits | 12 | 23,497,839 | 21,326,234 |
| Deposits and balances due to banks | 13 | 91,023 | 42,989 |
| Repo borrowings | 14 | 1,234,000 | 130,230 |
| Other liabilities | 15 | 1,538,976 | 1,513,253 |
| Derivative liabilities held for risk management | | 17,344 | 7,577 |
| Issued bonds | 16 | 4,877,118 | 5,597,926 |
| Total liabilities | | 31,256,300 | 28,618,209 |
| Equity | | | |
| Capital and reserves | | | |
| Share capital | | 2,100,000 | 2,100,000 |
| Statutory reserve | | 1,050,000 | 1,050,000 |
| Contingency reserve | | 640,000 | 640,000 |
| General and other reserves | | 274,989 | 293,109 |
| Investment fair value reserve | | (636,133) | (682,249) |
| Accumulated losses | | (255,206) | (291,984) |
| Equity attributable to equity holders of the Bank | | 3,173,650 | 3,108,876 |
| Non-controlling interests | | 19,764 | 20,220 |
| Total equity | | 3,193,414 | 3,129,096 |
| Total liabilities and equity | | 34,449,714 | 31,747,305 |



.....
Mohammed Bin Saud Al Qasimi
Chairman



.....
Varouj Nerguizian
General Manager

The accompanying notes 1 to 30 form an integral part of these condensed consolidated interim financial statements.

**Condensed consolidated interim statement of profit or loss (unaudited)
for the six-month period ended 30 June**

| | Note | Three-month period ended 30 June | | Six-month period ended 30 June | |
|---|------|-------------------------------------|-----------------|-----------------------------------|-----------------|
| | | 2020 AED'000 | 2019 AED'000 | 2020 AED'000 | 2019 AED'000 |
| Interest income | | 302,512 | 333,513 | 625,156 | 665,949 |
| Interest expense | | (206,651) | (228,880) | (427,455) | (442,756) |
| Net interest income | | 95,861 | 104,633 | 197,701 | 223,193 |
| Net fee and commission income | | 18,557 | 27,701 | 47,150 | 49,931 |
| Exchange profit | 22 | 144,639 | 3,333 | 142,783 | 6,432 |
| (Loss)/income on investments | | 12,802 | 17,103 | (34,983) | 15,611 |
| Other income | 23 | 65,320 | 2,670 | 76,486 | 12,281 |
| Operating income | | 337,179 | 155,440 | 429,137 | 307,448 |
| Net impairment loss on financial assets | 17 | (75,996) | 25,581 | (260,361) | 994 |
| Net operating income | | 261,183 | 181,021 | 168,776 | 308,442 |
| General and administrative expenses | | (75,135) | (73,034) | (138,244) | (140,286) |
| Amortisation of intangible assets | | (312) | (1,477) | (624) | (2,955) |
| Profit before taxes | | 185,736 | 106,510 | 29,908 | 165,201 |
| Income tax expense – overseas | | (4,527) | (6,260) | (11,706) | (13,351) |
| Net profit | | 181,209 | 100,250 | 18,202 | 151,850 |
| Attributable to: | | | | | |
| Equity holders of the Bank | | 181,452 | 100,423 | 18,658 | 152,164 |
| Non-controlling interests | | (243) | (173) | (456) | (314) |
| Net profit for the period | | 181,209 | 100,250 | 18,202 | 151,850 |
| Basic earnings per share (AED) | 19 | 0.086 | 0.048 | 0.009 | 0.072 |

The accompanying notes 1 to 30 form an integral part of these condensed consolidated interim financial statements.

**Condensed consolidated interim statement of profit and loss
and other comprehensive income (unaudited)
for the six-month period ended 30 June**

| | Three-month period ended 30 June | | Six-month period ended 30 June | |
|---|-------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2020 AED'000 | 2019 AED'000 | 2020 AED'000 | 2019 AED'000 |
| Profit for the period | 181,209 | 100,250 | 18,202 | 151,850 |
| Other comprehensive (loss)/ income items <i>Items that will not be reclassified subsequently to the condensed consolidated interim statement of profit or loss:</i> | | | | |
| Net changes in fair value of financial assets measured at fair value through other comprehensive income | 10,821 | 1,692 | (15,518) | 2,466 |
| Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk | (14,267) | (18,690) | 61,634 | (64,086) |
| Total other comprehensive (loss)/ income for the period | (3,446) | (16,998) | 46,116 | (61,620) |
| Total comprehensive income for the period | 177,763 | 83,252 | 64,318 | 90,230 |
| Attributable to: | | | | |
| Equity holders of the Bank | 178,006 | 83,425 | 64,774 | 90,544 |
| Non-controlling interests | (243) | (173) | (456) | (314) |
| Total comprehensive income for the period | 177,763 | 83,252 | 64,318 | 90,230 |

**Condensed consolidated interim statement of changes in equity (unaudited)
for the six-month period ended 30 June**

| | Share capital AED'000 | Statutory reserve AED'000 | Contingency reserve AED'000 | General and other reserves AED'000 | Changes in fair value reserve AED'000 | Retained earnings/ (accumulated losses) AED'000 | Total equity attributable to equity holders of the Bank AED'000 | Non- controlling interests AED'000 | Total equity AED'000 |
|--|-----------------------------|---------------------------------|-----------------------------------|---|---|---|--|---|----------------------------|
| Balance at 1 January 2019 (audited) | 2,100,000 | 1,050,000 | 600,000 | 250,257 | (535,375) | 300,324 | 3,765,206 | 13,709 | 3,778,915 |
| Profit for the period | - | - | - | - | - | 152,164 | 152,164 | (314) | 151,850 |
| Other comprehensive loss | - | - | - | - | (61,620) | - | (61,620) | - | (61,620) |
| Total comprehensive (loss)/income for the period | - | - | - | - | (61,620) | 152,164 | 90,544 | (314) | 90,230 |
| Reclassification on disposal of FVOCI investment | - | - | - | - | 6,919 | - | 6,919 | - | 6,919 |
| Transfer to impairment reserves | - | - | - | 109,099 | - | (109,099) | - | - | - |
| Effect of adopting IFRS 16 | - | - | - | - | - | (3,876) | (3,876) | - | (3,876) |
| Directors' remuneration (Note 18) | - | - | - | - | - | (3,306) | (3,306) | - | (3,306) |
| Balance at 30 June 2019 (unaudited) | 2,100,000 | 1,050,000 | 600,000 | 359,356 | (590,076) | 336,207 | 3,855,487 | 13,395 | 3,868,882 |
| Balance at 1 January 2020 (audited) | 2,100,000 | 1,050,000 | 640,000 | 293,109 | (682,249) | (291,984) | 3,108,876 | 20,220 | 3,129,096 |
| Profit for the period | - | - | - | - | - | 18,658 | 18,658 | (456) | 18,202 |
| Other comprehensive income | - | - | - | - | 46,116 | - | 46,116 | - | 46,116 |
| Total comprehensive income/(loss) for the period | - | - | - | - | 46,116 | 18,658 | 64,774 | (456) | 64,318 |
| Transfer from impairment reserves | - | - | - | (18,120) | - | 18,120 | - | - | - |
| Balance at 30 June 2020 (unaudited) | 2,100,000 | 1,050,000 | 640,000 | 274,989 | (636,133) | (255,206) | 3,173,650 | 19,764 | 3,193,414 |

The accompanying notes 1 to 30 form an integral part of these condensed consolidated interim financial statements.

**Condensed consolidated interim statement of cash flows (unaudited)
for the six-month period ended 30 June**

| | Note | 30 June 2020 AED'000 | 30 June 2019 AED'000 |
|--|------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Profit for the period | | 18,202 | 151,850 |
| Adjustments for: | | | |
| Depreciation of property and equipment | | 15,485 | 21,721 |
| Amortisation of other intangible assets | | 624 | 2,955 |
| Net amortisation of (discount)/premium on debt instruments | | (490) | 306 |
| Gain on sale of property and equipment | | (1,004) | (628) |
| Net fair value loss on issued debt securities | | 37,982 | 71,363 |
| Net fair value gain on interest rate swaps | | (37,982) | (71,363) |
| Net fair value loss on other financial assets | | 51,109 | 2,016 |
| Net fair value loss on investment property | | - | (1,000) |
| Net impairment loss/(gain) on financial assets | | 260,361 | (994) |
| Dividend income | | (16,187) | (16,638) |
| Operating profit before changes in operating assets and liabilities | | 328,100 | 159,588 |
| Changes in | | | |
| Deposits and balances due from banks maturing over three months | | - | (14,509) |
| Statutory deposits with central banks | | 105,586 | 66,629 |
| Loans and advances | | (1,562,226) | (1,754,200) |
| Other assets | | (173,801) | (130,984) |
| Customers' deposits | | 2,171,606 | 665,756 |
| Other liabilities | | 52,831 | 116,498 |
| Cash generated from/(used in) operations | | 922,096 | (891,222) |
| Payment of directors' remuneration and charity donations | | - | (3,306) |
| Net cash generated from/(used in) operating activities | | 922,096 | (894,528) |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | (1,973) | (79,105) |
| Proceeds from sale of property and equipment | | 10,098 | 5,150 |
| Addition of investment properties | | (50,189) | (54,426) |
| Purchase of other financial assets | | (1,961,657) | (22,257) |
| Proceeds from sale of other financial assets | | 66,464 | 200,634 |
| Dividend received | | 16,187 | 16,638 |
| Net cash (used in)/generated from investing activities | | (1,921,070) | 66,634 |
| Cash flows from financing activities | | | |
| Partial settlement of bonds | | (721,539) | - |
| Payment of lease liabilities | | (14,486) | - |
| Net cash used in financing activities | | (736,025) | - |
| Net decrease in cash and cash equivalents | | (1,734,999) | (827,894) |
| Cash and cash equivalents at the beginning of the period | | 4,034,393 | 3,203,322 |
| Cash and cash equivalents at the end of the period | 21 | 2,299,394 | 2,375,428 |

The accompanying notes 1 to 30 form an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements for the six-month period ended 30 June 2020

1. General information

Bank of Sharjah P.J.S.C. (the “Bank”), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank’s registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through eight branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying condensed consolidated interim financial statements combine the activities of the Bank and its subsidiaries (collectively the “Group”).

2. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard No. 34 - Interim Financial Reporting (“IAS 34”) issued by the International Accounting Standards Board and the applicable provisions of UAE Federal Law No 2 of 2015.

The condensed consolidated interim financial statements are presented in U.A.E. Dirhams (AED) as that is the currency in which the majority of the Group’s transactions are denominated.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019.

These condensed consolidated interim financial statements do not include all the information required in full consolidated financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2019. In addition, the results for the period from 1 January 2020 to 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

3. Changes in accounting policies, estimates and judgments

3.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these condensed consolidated interim financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendment to IFRS 3 *Business Combinations* relating to definition of a business.
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to definition of material.
- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments Disclosures* relating to interest rate benchmark reforms.
- Amendments to conceptual framework.

Notes to the condensed consolidated interim financial statements for the six-month period ended 30 June 2020 (continued)

3. Changes in accounting policies, estimates and judgments (continued)

3.2 *New and revised IFRSs in issue but not yet effective*

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective. The management is in the process of assessing the impact of the new requirements.

| <u>New and revised IFRS</u> | <u>Effective for annual periods beginning on or after</u> |
|--|--|
| Amendments to IAS 1 <i>Presentation of Financial Statements</i> regarding the definition of material. | 1 January 2022 |
| IFRS 17 <i>Insurance Contract</i> | 1 January 2022 |
| Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures (2011)</i> relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture | Effective date deferred indefinitely. Adoption is still permitted. |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3.3 Critical accounting judgments and key sources of estimation of uncertainty

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's 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 2019 except for the estimates and judgements which were impacted by COVID-19 as disclosed in note 28.

4. 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 2019.

5. Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

- power over the investee,
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

5. Basis of consolidation (continued)

The condensed consolidated interim financial statements comprise the financial information of the Bank and of the following subsidiaries. The reporting period for these subsidiaries is consistent as the Bank's reporting period, using consistent accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

| Name of Subsidiary | Proportion of ownership interest | | Year of incorporation | Year of acquisition | Country of incorporation | Principal activities |
|-------------------------------|----------------------------------|------|-----------------------|---------------------|--------------------------|---|
| | 2020 | 2019 | | | | |
| Emirates Lebanon Bank S.A.L. | 100% | 100% | 1965 | 2008 | Lebanon | Financial institution |
| El Capital FZC | 100% | 100% | 2007 | 2017 | U.A.E. | Investment in a financial institution |
| BOS Real Estate FZC | 100% | 100% | 2007 | 2007 | U.A.E. | Real estate development activities |
| BOS Capital FZC | 100% | 100% | 2007 | 2007 | U.A.E. | Investment |
| Polyco General Trading L.L.C. | 100% | 100% | 2008 | 2008 | U.A.E. | General trading |
| Borealis Gulf FZC | 100% | 100% | 2010 | 2010 | U.A.E. | Investment & Real estate development activities |
| BOS Funding Limited | 100% | 100% | 2015 | 2015 | Cayman Islands | Financing activities |
| Muwaileh Capital FZC | 90% | 90% | 2010 | 2017 | U.A.E. | Developing of real estate & related activities |
| BOS Repos Limited | 100% | 100% | 2018 | 2018 | Cayman Islands | Financing activities |
| BOS Derivatives Limited | 100% | 100% | 2018 | 2018 | Cayman Islands | Financing activities |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

6. Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|-------------------------------|---|---|
| Cash on hand | 87,803 | 72,105 |
| Statutory deposits (note 6.1) | 979,265 | 1,084,851 |
| Current accounts | 2,700,312 | 2,421,579 |
| Certificates of deposits | 2,199,830 | 2,528,123 |
| | 5,967,210 | 6,106,658 |
| Expected credit losses | (439,365) | (297,731) |
| | 5,527,845 | 5,808,927 |

(b) The geographical analysis of the cash and balances with central banks is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|------------------------|---|---|
| Banks abroad | 3,542,903 | 2,648,408 |
| Banks in the U.A.E. | 2,424,307 | 3,458,250 |
| | 5,967,210 | 6,106,658 |
| Expected credit losses | (439,365) | (297,731) |
| | 5,527,845 | 5,808,927 |

6.1 The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits with the central banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and USD reserve requirement limit. As at 30 June 2020, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 324 million (31 December 2019: AED 421 million).

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

7. Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|------------------------|---|---|
| Demand | 206,009 | 206,065 |
| Time | 8,233 | 154,892 |
| | 214,242 | 360,957 |
| Expected credit losses | (4,753) | (10,670) |
| | 209,489 | 350,287 |

(b) The geographical analysis of deposits and balances due from banks is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|------------------------|---|---|
| Banks abroad | 178,480 | 321,711 |
| Banks in the U.A.E. | 35,762 | 39,246 |
| | 214,242 | 360,957 |
| Expected credit losses | (4,753) | (10,670) |
| | 209,489 | 350,287 |

8. Reverse-repo placements

The analysis of the Group's repurchase agreements is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|------------------------|---|---|
| Banks in the U.A.E. | 190,390 | 457,713 |
| | 190,390 | 457,713 |
| Expected credit losses | - | (422) |
| | 190,390 | 457,291 |

The Group entered into reverse-repo agreements under which bonds with fair value of AED 190 million (31 December 2019 - AED 460 million) were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties. During the period, these reverse-repo agreements outstanding as at 31 December 2019 were matured.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

9. Loans and advances, net

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|--|---|---|
| Overdrafts | 6,971,892 | 7,301,407 |
| Commercial loans | 10,303,037 | 8,731,786 |
| Bills receivable | 2,240,626 | 1,977,841 |
| Other advances | 1,584,922 | 1,569,344 |
| | <hr/> | <hr/> |
| Gross amount of loans and advances net of interest in suspense | 21,100,477 | 19,580,378 |
| Less: Allowance for impairment | (1,902,971) | (1,844,622) |
| | <hr/> | <hr/> |
| Net loans and advances | 19,197,506 | 17,735,756 |
| | <hr/> <hr/> | <hr/> <hr/> |

(c) The geographic analysis of the gross loans and advances of the Group is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|---|---|---|
| Loans and advances residents in the U.A.E. | 18,150,781 | 16,307,624 |
| Loans and advances non-residents in Lebanon | 1,788,094 | 2,212,732 |
| Loans and advances abroad | 1,161,602 | 1,060,022 |
| | <hr/> | <hr/> |
| | 21,100,477 | 19,580,378 |
| | <hr/> <hr/> | <hr/> <hr/> |

(c) **IFRS 9 reserve**

In accordance with CBUAE circular, in case where provision under CBUAE guidance exceeds provision under IFRS 9, the excess is required to be transferred to IFRS 9 reserve. The details of the same are below:

| | Bank 30 June 2020 AED'000 (unaudited) | Bank 31 December 2019 AED'000 (audited) |
|--|--|---|
| <i>Impairment reserve – Specific</i> | | |
| Specific provisions and interest in suspense under Circular 28/2010 of CBUAE | 1,478,364 | 1,482,602 |
| Stage 3 provisions under IFRS 9 | 1,702,376 | 1,559,341 |
| | <hr/> | <hr/> |
| Specific provision transferred to the impairment reserve under equity | - | - |
| | <hr/> <hr/> | <hr/> <hr/> |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

9. Loans and advances, net (continued)

(c) IFRS 9 reserve (continued)

| | Bank 30 June 2020 AED'000 (unaudited) | Bank 31 December 2019 AED'000 (audited) |
|--|--|--|
| <i>Impairment reserve – Collective</i> | | |
| Collective provisions under Circular 28/2010 of CBUAE | 314,331 | 293,729 |
| Stage 1 and Stage 2 provisions under IFRS 9 | 139,342 | 100,620 |
| | <hr/> | <hr/> |
| Collective provision transferred to the impairment reserve under equity | 174,989 | 193,109 |
| | <hr/> <hr/> | <hr/> <hr/> |

10. Other financial assets

(a) The analysis of the Group's other financial assets is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|--|---|---|
| Other financial assets measured at fair value | | |
| (i) Investments measured at FVTPL | | |
| Quoted equity | 109,493 | 159,284 |
| | <hr/> | <hr/> |
| | 109,493 | 159,284 |
| | <hr/> | <hr/> |
| (ii) Investments measured at FVTOCI | | |
| Quoted equity | 85,242 | 127,183 |
| Unquoted equity | 209,577 | 209,252 |
| Debt securities | 109,287 | 123,759 |
| | <hr/> | <hr/> |
| | 404,106 | 460,194 |
| | <hr/> | <hr/> |
| Total other financial assets measured at fair value | 513,599 | 619,478 |
| | <hr/> | <hr/> |
| Other financial assets measured at amortised cost | | |
| Debt securities | 2,482,187 | 486,484 |
| Expected credit losses | (95,033) | (34,265) |
| | <hr/> | <hr/> |
| | 2,387,154 | 452,219 |
| | <hr/> | <hr/> |
| Total other financial assets | 2,900,753 | 1,071,697 |
| | <hr/> <hr/> | <hr/> <hr/> |

Included in the debt securities measured at amortised cost are sukuk with the fair value of AED 1,234 million (31 December 2019 – AED 130 million) are given as collateral against borrowings under repo agreements (Note 14).

The majority of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

10. Other financial assets (continued)

(b) The composition of the investment portfolio by geography is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|---|---|---|
| United Arab Emirates | 2,506,073 | 586,962 |
| Middle East (other than G.C.C. countries) | 449,070 | 478,358 |
| Europe | 40,643 | 40,642 |
| | <u>2,995,786</u> | <u>1,105,962</u> |
| Expected credit losses | (95,033) | (34,265) |
| | <u><u>2,900,753</u></u> | <u><u>1,071,697</u></u> |

11. Other assets

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|---|---|---|
| Acceptances – contra (Note 15) | 829,078 | 765,271 |
| Receivable from sale of property | 71,220 | 71,220 |
| Interest receivable | 38,458 | 37,616 |
| Prepayments | 19,992 | 10,521 |
| Clearing receivables and accrued income | 13,731 | 63,492 |
| Others | 62,165 | 51,991 |
| | <u>1,034,644</u> | <u>1,000,111</u> |
| Expected credit losses | (5,280) | (5,280) |
| | <u><u>1,029,364</u></u> | <u><u>994,831</u></u> |

12. Customers' deposits

The analysis of customers' deposits is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|----------------------------|---|---|
| Current and other accounts | 4,331,641 | 3,878,614 |
| Saving accounts | 1,198,818 | 1,424,628 |
| Time deposits | 17,967,380 | 16,022,992 |
| | <u>23,497,839</u> | <u>21,326,234</u> |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

13. Deposits and balances due to banks

a) The analysis of deposits and balances due to banks is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|--------|---|---|
| Demand | 91,023 | 32,307 |
| Time | - | 10,682 |
| | 91,023 | 42,989 |

b) The geographical analysis of deposits and balances due to banks is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|---------------------|---|---|
| Banks in the U.A.E. | 85,243 | 32,285 |
| Banks abroad | 5,780 | 10,704 |
| | 91,023 | 42,989 |

14. Repo borrowing

The analysis of the repo borrowing agreements is as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|---------------------|---|---|
| Banks in the U.A.E. | 1,234,000 | 130,230 |
| | 1,234,000 | 130,230 |

The Group entered into repo agreements under which bonds with fair value of AED 1,234 million (31 December 2019: AED 130 million) were given as collateral against borrowings. The risks and rewards relating to these bonds remain with the Group. Repo borrowings outstanding as at 31 December 2019 were matured during the period ended 30 June 2020.

Included in the borrowings is an amount of AED 334 million as Zero Cost Funding under CBUAE TESS program (Note 28).

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

15. Other liabilities

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|--|---|---|
| Acceptances – contra (Note 11) | 829,078 | 765,271 |
| Interest payable | 226,204 | 251,915 |
| Accrued expenses and others | 140,219 | 121,820 |
| ECL on unfunded exposure | 124,531 | 110,352 |
| Lease liabilities | 96,444 | 98,470 |
| Unearned income | 56,436 | 68,587 |
| Provision for employees' end of service benefits | 46,034 | 45,577 |
| Managers' cheques | 20,030 | 51,261 |
| | <u>1,538,976</u> | <u>1,513,253</u> |

16. Issued Bonds

On 8 June 2015, the Bank raised financing by way of USD 500 million (equivalent to AED 1,836 million) in senior unsecured bonds (the "Bonds") issued by BOS Funding Limited, a wholly owned subsidiary of the Bank, incorporated in the Cayman Islands. The Bonds are fully guaranteed by the Bank, carry a fixed interest rate of 3.374% per annum payable semi-annually and are listed on the Irish Stock Exchange. On 18 September 2019, the Bank repurchased by way of a Public Tender Offer USD 306.81 million of these bonds at a price of 101. On 8 June 2020, the remaining bonds have matured and were fully redeemed.

On 28 February 2017, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836 million) for a five year maturity at mid swaps plus 225 basis points, to yield 4.23%. The Notes were issued under the Bank's recently established Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

On 08 August 2019, the Bank issued Senior Unsecured Floating Rate Notes, totalling USD 120 million (equivalent to AED 440.76 million) for a three year maturity at three month Libor plus 190 basis points, classified at amortized cost. The Notes were issued under the Bank's Euro Medium Term Note (EMTN) Programme.

On 18 September 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 600 million (equivalent to AED 2,204 million) for a five year maturity at mid swaps plus 250 basis points, to yield 4.015%, classified at amortized cost. The Notes were issued under the Bank's Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

On 29 November 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling CHF 100 million (equivalent to AED 386 million) for a four year maturity at mid swaps plus 205 basis points, to yield 1.4575%, classified at amortized cost. The Notes are listed on the SIX Swiss Exchange and were issued under the Bank's Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

17. Net impairment loss on financial assets and credit risk

Allocation of impairment loss as of 30 June 2020 and 31 December 2019 is as follows:

| | Stage 1 AED'000 | Stage 2 AED'000 | Stage 3 AED'000 | Total AED'000 |
|--|--------------------|--------------------|--------------------|------------------|
| As at 30 June 2020 (unaudited) | | | | |
| Cash and balances with central banks | - | 17,575 | 421,790 | 439,365 |
| Deposits and balances due from banks | 726 | 4,027 | - | 4,753 |
| Loans and advances | 285,113 | 737,905 | 879,953 | 1,902,971 |
| Other financial assets measured at amortised cost | 2,112 | - | 92,921 | 95,033 |
| Unfunded exposure | 2,155 | 6,665 | 115,711 | 124,531 |
| Other assets | 5,280 | - | - | 5,280 |
| Others | 3,238 | - | - | 3,238 |
| Total | 298,624 | 766,172 | 1,510,375 | 2,575,171 |
| As at 31 December 2019 (audited) | | | | |
| Cash and balances with central banks | 297,731 | - | - | 297,731 |
| Deposits and balances due from banks | 10,653 | 17 | - | 10,670 |
| Reverse repurchase agreements | 422 | - | - | 422 |
| Loans and advances | 409,288 | 607,198 | 828,136 | 1,844,622 |
| Other financial assets measured at amortised cost | 34,265 | - | - | 34,265 |
| Unfunded exposure | 23,419 | 2,811 | 95,590 | 121,820 |
| Other assets | 5,280 | - | - | 5,280 |
| Total | 781,058 | 610,026 | 923,726 | 2,314,810 |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

17 Net impairment loss on financial assets and credit risk (continued)

The movement in impairment loss by financial asset category during the period ended 30 June 2020 is as follows:

| | Opening balance AED'000 | Charge during the period AED'000 | Reversals during the period AED'000 | Recoveries net of write off during the period AED'000 | Closing balance AED'000 | Net charge during the period ended 30 June 2019 AED'000 |
|---|-------------------------------|---|--|---|-------------------------------|--|
| Cash and balances with central banks | 297,731 | 141,634 | - | - | 439,365 | 114 |
| Deposits and balances due from banks | 10,670 | - | (5,917) | - | 4,753 | (394) |
| Reverse-repo placements | 422 | - | (422) | - | - | (263) |
| Loans and advances | 1,844,622 | 67,667 | (16,469) | 7,151 | 1,902,971 | (6,720) |
| Other financial assets measured at amortised cost | 34,265 | 102,950 | (42,182) | - | 95,033 | (182) |
| Unfunded exposure | 121,820 | 3,090 | (379) | - | 124,531 | (3,128) |
| Other assets | 5,280 | - | - | - | 5,280 | 5,280 |
| Others | - | 3,238 | - | - | 3,238 | 4,299 |
| Total | 2,314,810 | 318,579 | (65,369) | 7,151 | 2,575,171 | (994) |

The macro economic environment of subsidiary in Lebanon

Starting from the last quarter of 2019, Lebanon has been facing a political and economic instability. In order to protect the system and to mitigate the risks of the crisis, Lebanese banks have reviewed the limits on withdrawing US dollars and restricted all international outgoing transfers to basic necessities. In addition to that, on 4 December 2019, the Central Bank of Lebanon issued a new circular which requires Lebanese banks to impose new caps on interest rates on deposits and pay depositors half the interest due on foreign currency holdings in Lebanese Lira. With a significant debt to GDP ratio, Lebanon's external debt has risen significantly and it is facing turmoil and there is no certainty to when the situation will correct. During the first quarter of 2020, credit rating agencies downgraded the country's credit rating. As a result of the same, these condensed consolidated interim financial statements have reflected adjustments including an increase in expected credit losses (and respective staging). The Group continues to monitor the situation closely and the subsidiary continues to operate, and has support from the Group.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

18. Transactions with owners and directors of the Group

Bank of Sharjah

Dividends

At the Annual General Meeting of the shareholders held on 5 August 2020, the shareholders approved no cash dividends distribution (2018: no cash dividend distribution).

Directors' remuneration

At the Annual General Meeting of the shareholders held on 5 August 2020, the shareholders of the Bank approved no Directors' remuneration (2018: AED 7.5 million).

Charity donations

At the Annual General Meeting of the shareholders held on 5 August 2020, the shareholders approved charitable donations of AED 7.5 million (2018: AED 7.5 million).

Transfer to reserves

At the Annual General Meeting of the shareholders held on 5 August 2020, the shareholders approved no appropriation to contingency reserves (2018: AED 40 million).

Emirates Lebanon Bank

Cash dividend

At the Annual General Meeting held on 21 August 2020 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved no cash dividend distribution (2018: no cash dividend distribution).

Directors' remuneration

At the Annual General Meeting held on 29 February 2020 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.3 million (2018: AED 3.3 million).

19. Earnings per share

Earnings per share are computed by dividing the profit for the period by the weighted average number of shares outstanding during the period as follows:

| | Three-month period ended 30 June | | Six-month period ended 30 June | |
|---|-------------------------------------|---------------------|-----------------------------------|---------------------|
| | 2020 (unaudited) | 2019 (unaudited) | 2020 (unaudited) | 2019 (unaudited) |
| Basic earnings per share | | | | |
| Profit attributable to owners of the Bank for the period (AED'000) | 181,452 | 100,423 | 18,658 | 152,164 |
| Profit available to the owners of the Bank (AED'000) | 181,452 | 100,423 | 18,658 | 152,164 |
| Weighted average number of shares outstanding during the period (in thousands shares) | 2,100,000 | 2,100,000 | 2,100,000 | 2,100,000 |
| Basic earnings per share (AED) | 0.086 | 0.048 | 0.009 | 0.072 |

As at 30 June 2020 and 30 June 2019, there were no potential dilutive shares outstanding.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

20. Commitments and contingent liabilities

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|--|---|---|
| Financial guarantees for loans | 274,335 | 282,226 |
| Other guarantees | 2,499,349 | 2,581,167 |
| Letters of credit | 1,417,466 | 830,317 |
| | <u>4,191,150</u> | <u>3,693,710</u> |
| Irrevocable commitments to extend credit | 1,709,448 | 1,626,507 |
| | <u>5,900,598</u> | <u>5,320,217</u> |

21. Cash and cash equivalents

| | 30 June 2020 AED'000 (unaudited) | 30 June 2019 AED'000 (unaudited) |
|---|---|---|
| Cash and balances with central banks (Note 6) | 5,527,845 | 3,735,344 |
| Deposits and balances due from banks (Note 7) | 209,489 | 820,029 |
| Reverse-repo placements (Note 8) | 190,390 | 941,336 |
| Deposits and balances due to banks (Note 13) | (91,023) | (170,813) |
| Repo borrowings (Note 14) | (1,234,000) | (517,524) |
| | <u>4,602,701</u> | <u>4,808,372</u> |
| Less: Deposits with central banks and balances due from banks - original maturity more than three months | (1,324,042) | (1,430,487) |
| Less: Statutory deposits with central banks [Note 6(a)] | (979,265) | (1,002,457) |
| | <u>2,299,394</u> | <u>2,375,428</u> |

22. Exchange profit

Exchange profit includes AED 139 million resulting from a transaction in Lebanon.

23. Other income

Other income includes an amount of AED 63 million resulting from exceptional transactions related to Lebanon.

24. Related party transactions

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

24. Related party transactions (continued)

The related parties balances included in the condensed consolidated interim statement of financial position and the significant transactions with related parties are as follows:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|---|---|---|
| Loans and advances | 825,633 | 638,554 |
| Letters of credit, guarantee and acceptances | 4,323 | 11,415 |
| | 829,956 | 649,969 |
| Collateral deposits | 207,313 | 7,170 |
| Net exposure | 622,643 | 642,799 |
| Other deposits | 1,774,870 | 158,669 |
| | Six-months period ended 30 June | |
| | 2020 AED'000 (unaudited) | 2019 AED'000 (unaudited) |
| Interest income | 26,177 | 27,750 |
| Interest expense | 6,279 | 4,554 |
| Compensation of Directors and key management personnel: | | |
| | 2020 AED'000 (unaudited) | 2019 AED'000 (unaudited) |
| Short term benefits | 8,280 | 7,540 |
| Directors fees | - | 3,306 |
| End of service benefits | 1,614 | 966 |
| Total compensation | 9,894 | 11,812 |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

25. Segmental information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For operating purposes, the Group is organised into two major business segments:

- (i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Investment Banking, which involves the management of the Group's investment portfolio.

These segments are the basis on which the Group reports its segment information. Transactions between segments are conducted at rates determined by management, taking into consideration the cost of funds and an equitable allocation of expenses.

The following table presents information regarding the Group's operating segments.

| | Commercial Banking AED'000 | Investment Banking AED'000 | Unallocated AED'000 | Total AED'000 |
|------------------------------------|---|---|--------------------------------|--------------------------|
| 30 June 2020 (unaudited): | | | | |
| Segment assets | 25,219,918 | 4,648,547 | 4,581,249 | 34,449,714 |
| Segment liabilities | 25,651,946 | 4,877,118 | 727,236 | 31,256,300 |
| 31 December 2019 (audited): | | | | |
| Segment assets | 24,323,726 | 2,829,346 | 4,594,233 | 31,747,305 |
| Segment liabilities | 22,264,725 | 5,597,926 | 755,558 | 28,618,209 |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

25. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the six-month period ended 30 June 2020 (unaudited):

| | Commercial Banking AED'000 | Investment Banking AED'000 | Unallocated* AED'000 | Total AED'000 |
|--|---|---|---------------------------------|--------------------------|
| Revenue from external customers | | | | |
| -Net interest income | 183,591 | 14,110 | - | 197,701 |
| -Net fee and commission income | 47,150 | - | - | 47,150 |
| -Exchange profit | 4,123 | 138,660 | - | 142,783 |
| -Loss on investments | - | (34,983) | - | (34,983) |
| -Other income | - | 7,255 | 69,231 | 76,486 |
| Operating income | 234,864 | 125,042 | 69,231 | 429,137 |
| Other material non-cash items | | | | |
| -Net impairment charge on financial assets | (59,731) | (200,630) | - | (260,361) |
| -Depreciation of property and equipment | - | - | (15,484) | (15,484) |
| -General and administrative expenses | (104,345) | (18,415) | - | (122,760) |
| -Amortization of intangible assets | - | - | (624) | (624) |
| -Income tax expense– overseas | - | - | (11,706) | (11,706) |
| Profit/(loss) for the period | 70,788 | (94,003) | 41,417 | 18,202 |

* Unallocated items comprise mainly head office expenses and tax assets and liabilities of the overseas subsidiary

The following table presents information regarding the Group's operating segments for the six-months period ended 30 June 2019 (unaudited):

| | Commercial Banking AED'000 | Investment Banking AED'000 | Unallocated* AED'000 | Total AED'000 |
|--|---|---|---------------------------------|--------------------------|
| Revenue from external customers | | | | |
| -Net interest income | 213,877 | 9,316 | - | 223,193 |
| -Net fee and commission income | 49,931 | - | - | 49,931 |
| -Exchange profit | 6,432 | - | - | 6,432 |
| -Loss on investments | - | 15,611 | - | 15,611 |
| -Other income | - | 6,255 | 6,026 | 12,281 |
| Operating income | 270,240 | 31,182 | 6,026 | 307,448 |
| Other material non-cash items | | | | |
| -Net impairment charge on financial assets | 994 | - | - | 994 |
| -Depreciation of property and equipment | - | - | (21,721) | (21,721) |
| -General and administrative expenses | (100,780) | (17,785) | - | (118,565) |
| -Amortization of intangible assets | - | - | (2,955) | (2,955) |
| -Income tax expense– overseas | - | - | (13,351) | (13,351) |
| Profit/(loss) for the period | 170,454 | 13,397 | (32,001) | 151,850 |

* Unallocated items comprise mainly head office expenses and tax assets and liabilities of the overseas subsidiary

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

25. Segmental information (continued)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (30 June 2019: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for the purpose of resource allocation. The accounting policies of the reportable segments are the same as the Group's accounting policies as disclosed in the consolidated financial statements for the year ended 31 December 2019.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | Country of domicile AED'000 | Foreign AED'000 | Total AED'000 |
|--|--|----------------------------|--------------------------|
| 2020 | | | |
| Operating income (from external customers) for the six month period ended 30 June 2020 (unaudited) | 330,918 | 98,219 | 429,137 |
| Non-current assets as at 30 June 2020 (unaudited) | 5,572,436 | 182,101 | 5,754,537 |
| 2019 | | | |
| Operating income (from external customers) for the six month period ended 30 June 2019 (unaudited) | 234,041 | 73,407 | 307,448 |
| Non-current assets as at 30 June 2019 (unaudited) | 4,488,077 | 315,646 | 4,803,723 |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

26. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Other financial assets held at fair value through profit and loss

Investments held at fair value through profit and loss represent investment in securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Included in these investments listed, debt and equity securities for which the fair values are based on quoted prices at close of business as at 30 June 2020.

Other financial assets held at fair value through other comprehensive income (unquoted)

Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

Fair value of financial assets carried at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the condensed consolidated interim financial statements approximate their fair values.

| | Level | 30 June 2020 | | 31 December 2019 | |
|---|-------|----------------------------|-----------------------|----------------------------|-----------------------|
| | | Carrying amount AED'000 | Fair value AED'000 | Carrying amount AED'000 | Fair value AED'000 |
| <i>Financial assets</i> | | | | | |
| - Other financial assets measured at amortised cost | 3 | <u>2,387,154</u> | <u>2,380,538</u> | 452,219 | 400,749 |
| - Loans and advances | 3 | <u>19,197,506</u> | <u>19,197,506</u> | 17,735,756 | 17,735,756 |
| <i>Financial liabilities</i> | | | | | |
| - Customers' deposits | 2 | <u>23,497,839</u> | <u>23,497,839</u> | 21,326,234 | 21,326,234 |
| - Issued bonds | 2 | <u>3,026,404</u> | <u>3,026,404</u> | 3,019,861 | 3,019,861 |

The fair value for other financial assets measured at amortized cost is based on market prices.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

26. Fair value of financial instruments (continued)

Fair value measurements recognised in the condensed consolidated interim statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are ranked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|--------------------|--------------------|--------------------|------------------|
| At 30 June 2020 (unaudited) | | | | |
| <i>Other financial assets measured at fair value</i> | | | | |
| <i>Investment measured at FVTPL</i> | | | | |
| Quoted equity | 109,493 | - | - | 109,493 |
| <i>Investments carried at FVTOCI</i> | | | | |
| Quoted equity | 85,242 | - | - | 85,242 |
| Unquoted equity | - | - | 209,577 | 209,577 |
| Unquoted debt securities | - | 109,287 | - | 109,287 |
| Total | 194,735 | 109,287 | 209,577 | 513,599 |
| <i>Other financial liabilities measured at fair value</i> | | | | |
| Issued bonds measured at FVTPL | | | | |
| Quoted debt securities | 1,850,714 | - | - | 1,850,714 |
| <i>Other assets /liabilities</i> | | | | |
| Positive fair value of derivatives | - | 53,689 | - | 53,689 |
| Negative fair value of derivatives | - | (17,344) | - | (17,344) |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

26. Fair value of financial instruments (continued)

Fair value measurements recognised in the condensed consolidated interim statement of financial position (continued)

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|--------------------|--------------------|--------------------|------------------|
| At 31 December 2019 (audited) | | | | |
| <i>Other financial assets measured at fair value</i> | | | | |
| <i>Investment measured at FVTPL</i> | | | | |
| Quoted equity | 159,284 | - | - | 159,284 |
| <i>Investments measured at FVTOCI</i> | | | | |
| Quoted equity | 127,183 | - | - | 127,183 |
| Unquoted equity | - | - | 209,252 | 209,252 |
| Unquoted debt securities | - | 123,759 | - | 123,759 |
| Total | 286,467 | 123,759 | 209,252 | 619,478 |
| <i>Other financial liabilities measured at fair value</i> | | | | |
| Issued bonds measured at FVTPL | | | | |
| Quoted debt securities | 2,578,066 | - | - | 2,578,066 |
| <i>Other assets /liabilities</i> | | | | |
| Positive fair value of derivatives | - | 20,400 | - | 20,400 |
| Negative fair value of derivatives | - | (7,577) | - | (7,577) |

There were no transfers between Level 1 and Level 2 during the current year.

Reconciliation of Level 3 fair value measurements of other financial assets measured at fair value:

| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
|---|---|---|
| Opening balance | 209,252 | 323,239 |
| Profit/ (losses) recognised in other comprehensive income | 325 | (113,987) |
| Closing balance | 209,577 | 209,252 |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

27. Capital adequacy

The capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank:

| | Basel III | |
|------------------------------------|---|---|
| | 30 June 2020 AED'000 (unaudited) | 31 December 2019 AED'000 (audited) |
| Capital base | | |
| Tier 1 capital | 2,750,412 | 2,920,581 |
| Tier 2 capital | 340,698 | 329,871 |
| Total capital base | 3,091,110 | 3,250,452 |
| Risk-weighted assets: | | |
| Credit risk | 27,255,807 | 26,389,680 |
| Market risk | 220,032 | 360,838 |
| Operational risk | 1,290,982 | 1,290,982 |
| Total risk-weighted assets | 28,766,821 | 28,041,500 |
| Capital ratios | | |
| Common equity Tier 1 capital ratio | 9.56% | 10.42% |
| Tier 1 capital ratio | 9.56% | 10.42% |
| Total capital ratio | 10.75% | 11.59% |

28. Covid-19 and Expected Credit Loss (ECL)

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In response, governments and central banks have launched economic support and relief measures (including payment reliefs) to minimize the impact on individuals and corporates.

In the determination of Q2 2020 ECL, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the Covid-19 pandemic and taken in to account the economic support and relief measures of governments and central banks. The Group has also considered the notices issued by the Central Bank of UAE with regards to the Targeted Economic Support Scheme (TESS) and guidance issued by the International Accounting Standards Board (IASB) on 27 March 2020.

Significant increase in Credit Risk (SICR)

Under IFRS 9, loans are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a SICR since origination. A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)****28. Covid-19 and Expected Credit Loss (ECL) (continued)****Significant increase in Credit Risk (SICR) (continued)**

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or longer term.

During 2020, the Group has initiated a programme of payment relief for its impacted customers by deferring interest/principal due for a period of one month to six months. These payment reliefs are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs do not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the Covid-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers' short term liquidity constraints and a change in its lifetime credit risk. This approach is consistent with the expectations of the Central Bank of UAE as referred to in the TESS notice.

The accounting impact of the onetime extension of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

In the light of the current economic environment, the Group has accounted for ECL based on management judgement considering a change in economic scenarios. The loan portfolio is bifurcated in to two categories (significantly impacted and temporarily and mildly impact). The Bank has adopted the following:

Scenario 1

- Significantly Impacted: Stage downgrade + 2 notch rating downgrade
- Temporarily & Mildly Impacted: 1 notch rating downgrade

Scenario 2

- Significantly Impacted: Stage downgrade + 3 notch rating downgrade
- Temporarily & Mildly Impacted: 2 notch rating downgrade

Scenario 3

- Significantly Impacted: Stage downgrade + 4 notch rating downgrade
- Temporarily & Mildly Impacted: 3 notch rating downgrade

The total provision including ECL and overlays, currently recognised by the Group are adequate when compared with the results of the above three scenarios considered by the Group.

Forward Looking Information

In light of the current uncertain economic environment, the Group has assessed a range of possible macro-economic scenarios and associated weighted and analysed their impact on Q2 2020 ECL estimates accordingly. The Group continues to individually assess significant exposures to adequately safeguard against any adverse movements due to Covid-19.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

28. Covid-19 and Expected Credit Loss (ECL) (continued)

Analysis of clients benefitting from payment deferrals

The table below contains analysis of the deferred amount and outstanding balances of customers benefitting from deferrals:

| | Corporate banking AED'000 | Consumer banking AED'000 | Total AED'000 |
|------------------------------------|--|---|--------------------------|
| At 30 June 2020 (unaudited) | | | |
| Deferred amount | 121,876 | 1,191 | 123,067 |
| Exposures | 2,399,142 | 32,712 | 2,431,854 |

Zero Cost Funding under the CBUAE TESS program availed by the Group amounts to AED 334 million to provide payment relief to the impacted customers.

As per the requirements of the Central Bank of UAE, the Group has divided its customers benefitting from payment deferrals into two groups as follows:

Group 1: includes those customers that are not expected to face substantial changes in their creditworthiness, beyond liquidity issues and are temporarily and mildly impacted by the Covid-19 crisis.

For these clients, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers will remain in their current IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever is shorter.

Group 2: includes those customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration. The Group continue to monitor the creditworthiness of these customer, particularly indications of potential inability to pay any of their obligations as and when they become due.

The total change in Exposure at Default (EAD) since December 2019

The table below contains analysis of total change in EAD since 31 December 2019 on customers benefitting from payment deferrals:

| | |
|----------------------------------|------------------|
| | AED'000 |
| EAD as at 1 January 2020 | 1,988,849 |
| Additions during the period | 432,692 |
| Change in exposure during period | 10,313 |
| EAD as at 30 June 2020 | 2,431,854 |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

28. Covid-19 and Expected Credit Loss (ECL) (continued)

Stage migration estimated as EAD by portfolio since December 2019

Below is an analysis of stage migration since 31 December 2019 on customers benefitting from payment deferrals:

| | 12-month ECL AED'000 | Lifetime ECL not credit- impaired AED'000 | Lifetime ECL credit- impaired AED'000 | Total AED'000 |
|---|-------------------------------------|--|--|--------------------------|
| Corporate Banking | | | | |
| EAD as at 1 January 2020 | 1,237,593 | 732,337 | - | 1,969,930 |
| Transferred from 12-month ECL | (1,921) | 1,921 | - | - |
| Transferred from Lifetime ECL not credit-impaired | 6,659 | (6,659) | - | - |
| Change in exposure | (1,866) | (1,614) | - | (3,480) |
| Originated during the period | 432,692 | - | - | 432,692 |
| EAD as at 30 June 2020 | 1,673,157 | 725,985 | - | 2,399,142 |
| Consumer Banking | | | | |
| EAD as at 1 January 2020 | 18,918 | - | - | 18,918 |
| Transferred from 12-month ECL | (202) | 202 | - | - |
| Change in exposure | 13,823 | (29) | - | 13,794 |
| EAD as at 30 June 2020 | 32,539 | 173 | - | 32,712 |

Below is an analysis of change in ECL since 31 December 2019 on corporate customers benefitting from payment deferrals.

| | AED'000 |
|---|----------------|
| ECL allowance as at 1 January 2020 | 157,910 |
| Manufacturing | (405) |
| Construction and real estate | 114 |
| Education | - |
| Trading | (193) |
| Hospitals | - |
| Transportation | 87 |
| Others | 5,805 |
| ECL allowance as at 30 June 2020 | 163,318 |

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2020 (continued)**

29. Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the six month period ended 30 June 2020 and 30 June 2019.

30. Approval of condensed consolidated interim financial statements

The condensed consolidated interim financial statements were approved by the Board of Directors and authorised for issue on 28 October 2020.