

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



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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)
		<u>328,100</u>	<u>159,588</u>
Operating profit before changes in operating assets and liabilities			
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
		<u>922,096</u>	<u>(891,222)</u>
Cash generated from/(used in) operations			
Payment of directors' remuneration and charity donations		-	(3,306)
		<u>922,096</u>	<u>(894,528)</u>
Net cash generated from/(used in) operating activities			
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
		<u>(1,921,070)</u>	<u>66,634</u>
Net cash (used in)/generated from investing activities			
Cash flows from financing activities			
Partial settlement of bonds		(721,539)	-
Payment of lease liabilities		(14,486)	-
		<u>(736,025)</u>	<u>-</u>
Net cash used in financing activities			
Net decrease in cash and cash equivalents		<u>(1,734,999)</u>	<u>(827,894)</u>
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	<u><u>2,299,394</u></u>	<u><u>2,375,428</u></u>

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)
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Net loans and advances	19,197,506	17,735,756
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(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	-	-
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**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
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Collective provision transferred to the impairment reserve under equity	174,989	193,109
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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
	4,191,150	3,693,710
Irrevocable commitments to extend credit	1,709,448	1,626,507
	5,900,598	5,320,217

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)
	4,602,701	4,808,372
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)
	2,299,394	2,375,428

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.