

Bank of Sharjah P.J.S.C.

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

Bank of Sharjah P.J.S.C.

Table of contents	Pages
Report on review of condensed consolidated interim financial information	1 - 2
Condensed consolidated interim statement of financial position	3
Condensed consolidated interim statement of profit or loss (unaudited)	4
Condensed consolidated interim statement of comprehensive income (unaudited)	5
Condensed consolidated interim statement of changes in equity (unaudited)	6
Condensed consolidated interim statement of cash flows (unaudited)	7
Notes to the condensed consolidated interim financial statements	8 - 36

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 September 2020, and the related condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the nine-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 nine-month period ended 30 September 2019 was reviewed by another auditor who expressed an unmodified conclusion on this information on 24 October 2019.

Deloitte & Touche (M.E.)

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

Akbar Ahmad
Registration No. 1141
15 November 2020
Dubai
United Arab Emirates

Condensed consolidated interim statement of financial position
As at 30 September

	Notes	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
ASSETS			
Cash and balances with central banks	6	5,974,515	5,808,927
Deposits and balances due from banks	7	192,139	350,287
Reverse-repo placements	8	-	457,291
Loans and advances, net	9	19,417,127	17,735,756
Other financial assets measured at fair value	10	519,667	619,478
Other financial assets measured at amortised cost	10	2,347,270	452,219
Investment properties		838,261	756,037
Goodwill and other intangibles		135,647	136,587
Assets acquired in settlement of debt		4,049,924	4,044,572
Other assets	11	905,025	994,831
Derivative assets held for risk management		46,328	20,400
Property and equipment		342,740	370,920
Total assets		34,768,643	31,747,305
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	12	23,253,238	21,326,234
Deposits and balances due to banks	13	208,187	42,989
Repo borrowings	14	1,689,931	130,230
Other liabilities	15	1,414,041	1,513,253
Derivative liabilities held for risk management		16,569	7,577
Issued bonds	16	4,919,318	5,597,926
Total liabilities		31,501,284	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		273,737	293,109
Investment fair value reserve		(664,871)	(682,249)
Accumulated losses		(151,009)	(291,984)
Equity attributable to equity holders of the Bank		3,247,857	3,108,876
Non-controlling interests		19,502	20,220
Total equity		3,267,359	3,129,096
Total liabilities and equity		34,768,643	31,747,305



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Mohammed Bin Saud Al Qasimi
Chairman



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Varouj Nerguizian
General Manager

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

	Note	Three-month period ended 30 September		Nine-month period ended 30 September	
		2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Interest income		284,680	356,593	909,836	1,022,542
Interest expense		(192,329)	(248,444)	(619,784)	(691,200)
Net interest income		92,351	108,149	290,052	331,342
Net fee and commission income		24,239	23,756	71,389	73,687
Exchange profit	22	4,905	2,810	147,688	9,242
Income/(loss) on investments		10,220	2,107	(24,763)	17,718
Other income	23	196,094	1,845	272,580	14,126
Operating income		327,809	138,667	756,946	446,115
Net impairment loss on financial assets	17	(129,721)	(20,389)	(390,082)	(19,395)
Net operating income		198,088	118,278	366,864	426,720
General and administrative expenses		(79,800)	(91,584)	(218,044)	(231,870)
Amortisation of intangible assets		(313)	(1,478)	(937)	(4,433)
Profit before taxes		117,975	25,216	147,883	190,417
Income tax expense – overseas		(7,792)	(5,055)	(19,498)	(18,406)
Net profit		110,183	20,161	128,385	172,011
Attributable to:					
Equity holders of the Bank		110,445	20,338	129,103	172,502
Non-controlling interests		(262)	(177)	(718)	(491)
Net profit for the period		110,183	20,161	128,385	172,011
Basic and diluted earnings per share (AED)	19	0.052	0.010	0.061	0.082

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

**Condensed consolidated interim statement of comprehensive income (unaudited)
for the nine-month period ended 30 September**

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2020	2019	2020	2019
	AED'000	AED'000	AED'000	AED'000
Profit for the period	110,183	20,161	128,385	172,011
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	7,474	(27,181)	(8,044)	(24,715)
Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk	(36,212)	15,415	25,422	(48,671)
Total other comprehensive (loss)/income for the period	(28,738)	(11,766)	17,378	(73,386)
Total comprehensive income for the period	81,445	8,395	145,763	98,625
Attributable to:				
Equity holders of the Bank	81,707	8,572	146,481	99,116
Non-controlling interests	(262)	(177)	(718)	(491)
Total comprehensive income for the period	81,445	8,395	145,763	98,625

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

	Share capital	Statutory reserve	Contingency reserve	General and other reserves	Changes in fair value reserve	Retained Earnings/ (Accumulated Losses)	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	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	-	-	-	-	-	172,502	172,502	(491)	172,011
Other comprehensive loss	-	-	-	-	(73,386)	-	(73,386)	-	(73,386)
Total comprehensive (loss)/income for the period	-	-	-	-	(73,386)	172,502	99,116	(491)	98,625
Reclassification on disposal of FVOCI investment	-	-	-	-	6,919	-	6,919	-	6,919
Transfer to impairment reserves	-	-	-	107,154	-	(107,154)	-	-	-
Transfer to contingency reserve (Note 18)	-	-	40,000	-	-	(40,000)	-	-	-
Directors' remuneration (Note 18)	-	-	-	-	-	(10,806)	(10,806)	-	(10,806)
Charity donations (Note 18)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Effect of adopting IFRS 16	-	-	-	-	-	(3,876)	(3,876)	-	(3,876)
Balance at 30 September 2019 (unaudited)	2,100,000	1,050,000	640,000	357,411	(601,842)	303,490	3,849,059	13,218	3,862,277
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	-	-	-	-	-	129,103	129,103	(718)	128,385
Other comprehensive income	-	-	-	-	17,378	-	17,378	-	17,378
Total comprehensive income/(loss) for the period	-	-	-	-	17,378	129,103	146,481	(718)	145,763
Transfer from impairment reserves	-	-	-	(19,372)	-	19,372	-	-	-
Charity donations	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance at 30 September 2020 (unaudited)	2,100,000	1,050,000	640,000	273,737	(664,871)	(151,009)	3,247,857	19,502	3,267,359

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 nine-month period ended 30 September**

	Note	30 September 2020 AED'000	30 September 2019 AED'000
Cash flows from operating activities			
Profit for the period		128,385	172,011
Adjustments for:			
Depreciation of property and equipment		23,071	24,367
Amortisation of other intangible assets		937	4,433
Net amortisation of (discount)/premium on debt instruments		(754)	462
Gain on sale of property and equipment		(1,124)	(629)
Net fair value loss/(gain) on issued debt securities		32,054	(64,935)
Net fair value (gain)/loss on interest rate swaps		(32,054)	67,411
Net fair value loss on other financial assets		40,918	43
Net fair value loss on investment property		-	1,000
Net impairment loss on financial assets		390,082	19,395
Dividend income		(16,187)	(16,638)
		<u>565,328</u>	<u>206,920</u>
Operating profit before changes in operating assets and liabilities		565,328	206,920
Changes in			
Deposits and balances due from banks maturing over three months		27,548	(14,509)
Statutory deposits with central banks		65,386	73,050
Loans and advances		(2,071,452)	(2,106,370)
Other assets		110,309	(148,180)
Customers' deposits		1,927,005	640,909
Other liabilities		(59,162)	114,301
		<u>564,962</u>	<u>(1,235,879)</u>
Cash generated from/ (used in) operating activities		564,962	(1,235,879)
Payment of directors' remuneration and charity donations		(7,500)	(18,306)
		<u>557,462</u>	<u>(1,252,185)</u>
Net cash generated from/ (used in) operating activities		557,462	(1,252,185)
Cash flows from investing activities			
Purchase of property and equipment		(3,998)	(80,026)
Proceeds from sale of property and equipment		10,229	5,363
Addition of investment properties		(82,224)	(66,044)
Purchase of other financial assets		(1,921,225)	(6,656)
Proceeds from sale of other financial assets		77,776	202,803
Dividend received		16,187	16,638
		<u>(1,903,255)</u>	<u>72,078</u>
Net cash (used in)/generated from investing activities		(1,903,255)	72,078
Cash flows from financing activities			
Issued bonds		-	2,644,561
Issued bonds repurchased		-	(1,126,931)
Partial settlement of bonds		(721,539)	-
Payment of lease liabilities		(14,486)	-
		<u>(736,025)</u>	<u>1,517,630</u>
Net cash (used in)/ generated from financing activities		(736,025)	1,517,630
Net (decrease)/increase in cash and cash equivalents		(2,081,818)	337,523
Cash and cash equivalents at the beginning of the period		4,034,393	3,203,322
		<u>1,952,575</u>	<u>3,540,845</u>
Cash and cash equivalents at the end of the period	21	1,952,575	3,540,845

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 nine-month period ended 30 September 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 September 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 nine-month period ended 30 September 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.

	Effective for annual periods <u>beginning on or after</u>
<u>New and revised IFRS</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 condensed consolidated interim financial statements incorporate the condensed consolidated interim 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Cash on hand	96,658	72,105
Statutory deposits (note 6.1)	1,019,465	1,084,851
Current accounts	2,892,300	2,421,579
Certificates of deposits	2,439,702	2,528,123
	6,448,125	6,106,658
Expected credit losses	(473,610)	(297,731)
	5,974,515	5,808,927

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks abroad	3,751,405	2,648,408
Banks in the U.A.E.	2,696,720	3,458,250
	6,448,125	6,106,658
Expected credit losses	(473,610)	(297,731)
	5,974,515	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 September 2020, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 355 million (31 December 2019: AED 421 million).

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 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 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Demand	182,976	206,065
Time	10,688	154,892
	193,664	360,957
Expected credit losses	(1,525)	(10,670)
	192,139	350,287

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks abroad	154,268	321,711
Banks in the U.A.E.	39,396	39,246
	193,664	360,957
Expected credit losses	(1,525)	(10,670)
	192,139	350,287

8. Reverse-repo placements

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

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

As at 31 December 2019, the Group entered into reverse-repo agreements under which bonds with fair value of 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 nine-month period ended 30 September 2020 these reverse-repo agreements were matures.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 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 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Overdrafts	6,798,238	7,301,407
Commercial loans	10,572,490	8,731,786
Bills receivable	2,321,613	1,977,841
Other advances	1,647,190	1,569,344
	<hr/>	<hr/>
Gross amount of loans and advances net of interest in suspense	21,339,531	19,580,378
Less: Allowance for impairment	(1,922,404)	(1,844,622)
	<hr/>	<hr/>
Net loans and advances	19,417,127	17,735,756
	<hr/> <hr/>	<hr/> <hr/>

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Loans and advances residents in the U.A.E.	18,372,032	16,307,624
Loans and advances non-residents in Lebanon	1,726,244	2,212,732
Loans and advances abroad	1,241,255	1,060,022
	<hr/>	<hr/>
	21,339,531	19,580,378
	<hr/> <hr/>	<hr/> <hr/>

(c) **Impairment 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 impairment reserve. The details of the same are below:

	Bank 30 September 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	1,478,365	1,482,602
Stage 3 provisions under IFRS 9	1,714,090	1,559,341
	<hr/>	<hr/>
Specific provision transferred to the impairment reserve	-	-
	<hr/> <hr/>	<hr/> <hr/>

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

9. Loans and advances, net (continued)

(c) IFRS 9 reserve (continued)

	Bank 30 September 2020 AED'000 (unaudited)	Bank 31 December 2019 AED'000 (audited)
<i>Impairment reserve – Collective</i>		
Collective provisions under Circular 28/2010 of CBUAE	325,836	293,729
Stage 1 and Stage 2 provisions under IFRS 9	152,099	100,620
	<hr/> 173,737 <hr/>	<hr/> 193,109 <hr/>

During the nine-month period ended 30 September 2020 AED 19,372 thousand are transferred from (2019: AED 107,154 thousand transferred to) general and other reserve to retained earnings in respect of impairment reserve.

10. Other financial assets

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	119,685	159,284
	<hr/> 119,685 <hr/>	<hr/> 159,284 <hr/>
(ii) Investments measured at FVTOCI		
Quoted equity	94,290	127,183
Unquoted equity	206,016	209,252
Debt securities	99,676	123,759
	<hr/> 399,982 <hr/>	<hr/> 460,194 <hr/>
Total other financial assets measured at fair value	<hr/> 519,667 <hr/>	<hr/> 619,478 <hr/>
Other financial assets measured at amortised cost		
Debt securities	2,481,925	486,484
Expected credit losses	(134,655)	(34,265)
	<hr/> 2,347,270 <hr/>	<hr/> 452,219 <hr/>
Total other financial assets	<hr/> 2,866,937 <hr/>	<hr/> 1,071,697 <hr/>

Included in the debt securities measured at amortised cost are sukuk with the fair value of AED 1,690 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 nine-month period ended 30 September 2020 (continued)**

10. Other financial assets (continued)

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
United Arab Emirates	2,522,762	586,962
Middle East (other than G.C.C. countries)	438,183	478,358
Europe	40,648	40,642
	<u>3,001,593</u>	<u>1,105,962</u>
Expected credit losses	(134,655)	(34,265)
	<u><u>2,866,937</u></u>	<u><u>1,071,697</u></u>

11. Other assets

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Acceptances - contra (Note 15)	681,559	765,271
Others	106,157	51,991
Receivable from sale of property	71,220	71,220
Interest receivable	32,420	37,616
Prepayments	13,890	10,521
Clearing receivables and accrued income	5,059	63,492
	<u>910,305</u>	<u>1,000,111</u>
Expected credit losses	(5,280)	(5,280)
	<u><u>905,025</u></u>	<u><u>994,831</u></u>

12. Customers' deposits

The analysis of customers' deposits is as follows:

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Current and other accounts	5,038,043	3,878,614
Saving accounts	1,166,833	1,424,628
Time deposits	17,048,362	16,022,992
	<u>23,253,238</u>	<u>21,326,234</u>

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

13. Deposits and balances due to banks

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Demand	208,187	32,307
Time	-	10,682
	<u>208,187</u>	<u>42,989</u>

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks in the U.A.E.	196,645	32,285
Banks abroad	11,542	10,704
	<u>208,187</u>	<u>42,989</u>

14. Repo borrowing

The analysis of the repo borrowing agreements is as follows:

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks in the U.A.E.	1,689,931	130,230
	<u>1,689,931</u>	<u>130,230</u>

The Group entered into repo agreements under which bonds with fair value of AED 1,690 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 September 2020.

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

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

15. Other liabilities

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Acceptances – contra (Note 11)	681,559	765,271
Accrued expenses and others	207,130	110,352
Interest payable	192,631	251,915
ECL on unfunded exposure	130,715	121,820
Lease liabilities	96,444	98,470
Provision for employees' end of service benefits	44,592	45,577
Unearned income	42,111	68,587
Managers' cheques	18,859	51,261
	<u>1,414,041</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 were fully guaranteed by the Bank, carry a fixed interest rate of 3.374% per annum payable semi-annually and were 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 EMTN Programme which is listed on the Irish Stock Exchange.

On 8 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 EMTN Programme which is listed on the Irish Stock Exchange.

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 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 EMTN Programme.

The General Assembly on 5 August 2020, updated the Bank's EMTN programme and approved to increase its global size from USD 1.5 billion to USD 2.5 billion.

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

17. Net impairment loss on financial assets and credit risk

Allocation of impairment loss as of 30 September 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 September 2020 (unaudited)				
Cash and balances with central banks	-	20,625	452,985	473,610
Deposits and balances due from banks	1,511	14	-	1,525
Loans and advances	287,007	748,224	887,173	1,922,404
Other financial assets measured at amortised cost	2,730	-	131,925	134,655
Unfunded exposure	2,701	12,165	115,849	130,715
Other assets	5,280	-	-	5,280
Others	36,703	-	-	36,703
Total	335,932	781,028	1,587,932	2,704,892
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 nine-month period ended 30 September 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 September 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 September 2019 AED'000
Cash and balances with central banks	297,731	295,873	(119,994)	-	473,610	(330)
Deposits and balances due from banks	10,670	-	(9,145)	-	1,525	1,888
Reverse-repo placements	422	-	(422)	-	-	(202)
Loans and advances	1,844,622	87,344	(16,469)	6,907	1,922,404	13,174
Other financial assets measured at amortised cost	34,265	100,390	-	-	134,655	(753)
Unfunded exposure	121,820	9,274	(379)	-	130,715	(6,838)
Other assets	5,280	-	-	-	5,280	12,456
Others	-	36,703	-	-	36,703	-
Total	2,314,810	529,584	(146,409)	6,907	2,704,892	19,395

The macro economic environment of a 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 nine-month period ended 30 September 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 10.8 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 September		Nine-month period ended 30 September	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Basic earnings per share				
Profit attributable to owners of the Bank for the period (AED'000)	110,445	20,338	129,103	172,502
Profit available to the owners of the Bank (AED'000)	110,445	20,338	129,103	172,502
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)	0.052	0.010	0.061	0.082

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

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

20. Commitments and contingent liabilities

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Financial guarantees for loans	265,817	282,226
Other guarantees	2,489,931	2,581,167
Letters of credit	1,408,434	830,317
	<u>4,164,182</u>	<u>3,693,710</u>
Irrevocable commitments to extend credit	1,512,429	1,626,507
	<u><u>5,676,611</u></u>	<u><u>5,320,217</u></u>

21. Cash and cash equivalents

	30 September 2020 AED'000 (unaudited)	30 September 2019 AED'000 (unaudited)
Cash and balances with central banks (Note 6)	5,974,515	4,237,182
Deposits and balances due from banks (Note 7)	192,139	540,380
Reverse-repo placements (Note 8)	-	1,223,775
Deposits and balances due to banks (Note 13)	(208,187)	(33,969)
Repo borrowings (Note 14)	(1,689,931)	-
	<u>4,268,536</u>	<u>5,967,368</u>
Less: Deposits with central banks and balances due from banks - original maturity more than three months	(1,296,496)	(1,430,486)
Less: Statutory deposits with central banks [Note 6.(a)]	(1,019,465)	(996,037)
	<u><u>1,952,575</u></u>	<u><u>3,540,845</u></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 254 million generated from limited number of transactions with customers of the Group through its subsidiary in Lebanon that are infrequent and nonrecurring in nature.

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

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.

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 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Loans and advances	663,296	638,554
Letters of credit, guarantee and acceptances	4,123	11,415
	667,419	649,969
Collateral deposits	7,170	7,170
Net exposure	660,024	642,799
Other deposits	1,642,643	158,669
	Nine-months period ended 30 September 2020 AED'000 (unaudited)	2019 AED'000 (unaudited)
Interest income	39,556	37,573
Interest expense	11,819	6,725
Compensation of Directors and key management personnel:	Nine-months period ended 30 September 2020 AED'000 (unaudited)	2019 AED'000 (unaudited)
Short term benefits	12,420	11,250
Directors fees	-	10,806
End of service benefits	1,777	966
Total compensation	14,197	23,022

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 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:

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
<u>30 September 2020 (unaudited):</u>				
Segment assets	25,091,282	5,086,122	4,591,239	34,768,643
Segment liabilities	25,832,914	4,919,318	749,052	31,501,284
<u>31 December 2019 (audited):</u>				
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 nine-month period ended 30 September 2020 (continued)**

25. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the nine-months period ended 30 September 2020 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated* AED'000	Total AED'000
Revenue from external customers				
-Net interest income	263,486	26,566	-	290,052
-Net fee and commission income	71,389	-	-	71,389
-Exchange profit	147,688	-	-	147,688
-Loss on investments	-	(24,763)	-	(24,763)
-Other income	-	12,860	259,720	272,580
Operating income	482,563	14,663	259,720	756,946
Other material non-cash items				
-Net impairment charge on financial assets	(113,813)	(276,269)	-	(390,082)
-Depreciation of property and equipment	-	-	(23,071)	(23,071)
-General and administrative expenses	(165,727)	(29,246)	-	(194,973)
-Amortization of intangible assets	-	-	(937)	(937)
-Income tax expense– overseas	-	-	(19,498)	(19,498)
Profit/(loss) for the period	203,023	(290,852)	216,214	128,385

* Unallocated items comprise mainly income from transaction related to Lebanon, 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 nine-months period ended 30 September 2019 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
-Net interest income	307,598	23,744	-	331,342
-Net fee and commission income	73,687	-	-	73,687
-Exchange profit	9,242	-	-	9,242
-Investment income	-	17,718	-	17,718
-Other income	15,126	(1,000)	-	14,126
Operating income	405,653	40,462	-	446,115
Other material non-cash items				
-Net impairment charge on financial assets	(19,395)	-	-	(19,395)
-Depreciation of property and equipment	-	-	(24,367)	(24,367)
-General and administrative expenses	(176,378)	(31,125)	-	(207,503)
-Amortization of other intangible assets	-	-	(4,433)	(4,433)
-Income tax– overseas	-	-	(18,406)	(18,406)
Profit/(loss) for the period	209,880	9,337	(47,206)	172,011

* 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 nine-month period ended 30 September 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 September 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 nine-month period ended 30 September 2020 (unaudited)	616,066	140,880	756,946
Non-current assets as at 30 September 2020 (unaudited)	5,427,456	208,912	5,636,368
2019			
Operating income (from external customers) for the nine-month period ended 30 September 2019 (unaudited)	331,551	114,564	446,115
Non-current assets as at 30 September 2019 (unaudited)	4,571,911	313,061	4,884,972

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 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 September 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 September 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	2,347,270	2,376,773	452,219	400,749
- Loans and advances	3	19,417,127	19,417,127	17,735,756	17,735,756
<i>Financial liabilities</i>					
- Customers' deposits	2	23,253,238	23,253,238	21,326,234	21,326,234
- Issued Bonds	2	3,039,752	3,039,752	3,019,860	3,019,860

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 nine-month period ended 30 September 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 September 2020 (unaudited)				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>	119,685	-	-	119,685
Quoted equity				
<i>Investments carried at FVTOCI</i>				
Quoted equity	94,290	-	-	94,290
Unquoted equity	-	-	206,016	206,016
Unquoted debt securities	-	99,676	-	99,676
Total	213,975	99,676	206,016	519,667
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL				
Quoted debt securities	1,879,566	-	-	1,879,566
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	46,328	-	46,328
Negative fair value of derivatives	-	(16,569)	-	(16,569)

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 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 carried at FVTOCI</i>				
Quoted equity	127,183	-	-	127,183
Unquoted equity	-	-	209,252	209,252
Unquoted debt securities	-	123,759	-	123,759
Total	<u>286,467</u>	<u>123,759</u>	<u>209,252</u>	<u>619,478</u>
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL				
Quoted debt securities	<u>2,578,066</u>	<u>-</u>	<u>-</u>	<u>2,578,066</u>
<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.

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

26. Fair value of financial instruments (continued)

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

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Opening balance	209,252	323,239
Losses recognised in other comprehensive income	(3,236)	(113,987)
Closing balance	206,016	209,252

27. Capital adequacy

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

	Basel III	
	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Capital base		
Tier 1 capital	3,057,838	2,920,581
Tier 2 capital	349,540	329,871
Total capital base	3,407,378	3,250,452
Risk-weighted assets:		
Credit risk	27,963,236	26,389,680
Market risk	674,808	360,838
Operational risk	1,290,982	1,290,982
Total risk-weighted assets	29,929,026	28,041,500
Capital ratios		
Common equity Tier 1 capital ratio	10.22%	10.42%
Tier 1 capital ratio	10.22%	10.42%
Total capital ratio	11.38%	11.59%

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2020 (continued)****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 Q3 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 into 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.

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 nine 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.

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 Q3 2020 ECL estimates accordingly. The Group has incorporated Covid-19 impacted variables into its IFRS 9 calculations in Q3 2020, including updated macro – economic forecasts, to reflect the impact of Covid-19. This has resulted in an estimated AED 155 million impact on ECL and net of other overlays, is reflected in the statement of profit and loss during the period ended 30 September 2020.

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.

Analysis of clients benefitting from payment deferrals

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.

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

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

Analysis of clients benefitting from payment deferrals (continued)

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.

Table 1(a): Deferrals information at beginning of the year (stock)

Scope: Clients benefitting from deferrals in 2020 (TESS clients and non-TESS clients)

Portfolio date: 1 January 2020

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
<i>Retail banking</i>	Stage 1	Group 1	41	-	18,918	405
		Group 2	-	-	-	-
			41	-	18,918	405
Total retail banking			41	-	18,918	405
<i>Wholesale banking</i>	Stage 1	Group 1	20	-	2,497,482	55,565
		Group 2	11	-	39,843	117
			31	-	2,537,325	55,682
	Stage 2	Group 1	8	-	994,763	95,646
		Group 2	7	-	813,981	164,610
			15	-	1,808,744	260,256
	Stage 3	Group 1	-	-	-	-
		Group 2	1	-	160,000	40,479
			1	-	160,000	40,479
Total wholesale banking			47	-	4,506,069	356,417

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

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

Table 1(b): Deferrals information during the year

Scope: Clients benefiting from deferrals in 2020 (TESS clients and non-TESS clients)

Portfolio date: 30 September 2020

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
<i>Retail banking</i>	Stage 1	Group 1	42	15,654	58,227	281
		Group 2	-	-	-	-
			42	15,654	58,227	281
Total retail banking			42	15,654	58,227	281
<i>Wholesale banking</i>	Stage 1	Group 1	23	339,206	3,851,521	65,566
		Group 2	10	9,448	37,793	134
			33	348,654	3,889,314	65,700
	Stage 2	Group 1	7	94,023	459,828	84,337
		Group 2	8	32,642	827,056	181,786
			15	126,665	1,286,884	266,123
	Stage 3	Group 1	-	-	-	-
		Group 2	1	1,600	160,000	40,479
			1	1,600	160,000	40,479
	Total wholesale banking			49	476,919	5,336,198

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

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

Table 2a: Stage migration for the three-month period ended 30 September 2020

Scope: All clients

Migration during the quarter

	Non-credit impaired		Non-credit impaired		Credit impaired		Total	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Stage 3	Exposure	Impairment allowance
	Exposure	Impairment allowance	Exposure	Impairment allowance	Exposure	Impairment allowance	Exposure	Impairment allowance
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Retail banking loans</i>								
As of 1 July 2020	201,650	2,517	13,817	1,283	25,281	3,060	240,748	6,860
Transfers from stage 1 to stage 2	(404)	-	404	-	-	-	-	-
Transfers from stage 2 to stage 1	8,878	-	(8,878)	-	-	-	-	-
Transfers from 1&2 to stage 3	(75)	-	(595)	-	670	-	-	-
Transfers from stage 3	16,848	-	-	-	(16,848)	-	-	-
Change in exposure	(3,630)	-	(87)	-	240	-	(3,477)	-
Other movements	38,804	(200)	10,000	(1,271)	126	384	48,930	(1,087)
As of 30 September 2020	262,071	2,317	14,661	12	9,469	3,444	286,201	5,773
<i>Wholesale banking loans</i>								
As of 1 July 2020	12,189,003	282,595	5,668,189	736,623	3,002,537	876,893	20,859,729	1,896,111
Transfers from stage 1 to stage 2	(680,683)	(19,981)	680,683	19,981	-	-	-	-
Transfers from stage 2 to stage 1	813,172	34,720	(813,172)	(34,720)	-	-	-	-
Transfers from 1&2 to stage 3	(59)	-	(11)	(73)	70	73	-	-
Transfers from stage 3	-	-	6,508	2,018	(6,508)	(2,018)	-	-
Change in exposure	(148,705)	(29,218)	(26,857)	(18,533)	42,083	6,859	(133,479)	(40,892)
Other movements	282,941	16,582	363,645	42,916	(319,505)	1,922	327,080	61,411
As of 30 September 2020	12,613,498	284,698	5,721,156	748,212	2,718,677	883,729	21,053,330	1,916,630

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

28. Covid-19 and expected credit loss (ECL) (continued)

Table 2b: Stage migration for the nine-month period ended 30 September 2020

Scope: All clients

Migration during the year

	Non-credit impaired		Stage 2		Credit impaired Stage 3		Total	
	Stage 1	Impairment allowance	Exposure	Impairment allowance	Exposure	Impairment allowance	Exposure	Impairment allowance
	Exposure							
<i>Retail banking loans</i>								
As of 1 January 2020	184,223	3,291	34,199	53	8,140	2,478	226,562	5,822
Transfers from stage 1 to stage 2	(163)	-	163	-	-	-	-	-
Transfers from stage 2 to stage 1	1,826	-	(1,826)	-	-	-	-	-
Transfers from 1&2 to stage 3	(2,095)	-	(66)	-	2,161	19	-	19
Transfers from stage 3	420	-	-	-	(420)	-	-	-
Change in exposure	2,439	-	(133)	-	(479)	-	1,827	-
Other movements	75,421	(974)	(17,676)	(41)	67	947	57,812	(68)
As at 30 September 2020	262,071	2,317	14,661	12	9,469	3,444	286,201	5,773
<i>Wholesale banking loans</i>								
As of 1 January 2020	12,561,456	405,441	4,139,539	607,198	2,652,821	826,161	19,353,816	1,838,800
Transfers from stage 1 to stage 2	(1,399,952)	(73,308)	1,399,952	74,537	-	-	-	1,229
Transfers from stage 2 to stage 1	703,161	14,588	(703,161)	(14,588)	-	-	-	-
Transfers from 1&2 to stage 3	(20,194)	(230)	(27,693)	(2,064)	47,887	2,924	-	630
Transfers from stage 3	-	-	443	243	(443)	(243)	-	-
Change in exposure	307,414	(29,552)	158,175	(143,712)	206,061	41,655	671,650	(131,609)
Other movements	303,784	(32,249)	911,730	226,597	(187,650)	13,232	1,027,864	207,580
As at 30 September 2020	12,455,669	284,690	5,878,985	748,211	2,718,676	883,729	21,053,330	1,916,630

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

28. Covid-19 and expected credit loss (ECL) (continued)

Table 3a: ECL charge/(flow) for the three-month period ended 30 September 2020

Scope: All clients

During the quarter

	Non-credit impaired		Credit impaired	Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
<i>Retail banking loans:</i>				
ECL allowance as of 1 July 2020	2,517	1,283	3,060	6,860
Others	(200)	(1,271)	384	(1,087)
ECL allowance as of 30 September 2020	2,317	12	3,444	5,773
<i>Wholesale banking loans:</i>				
ECL allowance as of 1 July 2020	282,595	736,623	876,893	1,896,111
Emirates governments	1,373	-	-	1,373
GREs (Gov ownership >50%)	3,682	-	-	3,682
Other corporates	(55,239)	(23,089)	(3,088)	(81,416)
High net worth individuals	38,190	15,864	1,340	55,394
SMEs	14,089	18,813	7,677	40,579
Others	-	-	907	907
ECL allowance as of 30 September 2020	284,690	748,211	883,729	1,916,630

Table 3b: ECL change/(flow) for the nine-month period ended 30 September 2020

Scope: All clients

As at 30 September 2020

	Non-credit impaired		Credit impaired	Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
<i>Retail banking loans:</i>				
ECL allowance as of 1 January 2020	3,291	53	2,478	5,822
Others	(974)	(41)	966	(49)
ECL allowance as of 30 September 2020	2,317	12	3,444	5,773
<i>Wholesale banking loans:</i>				
ECL allowance as of 1 January 2020	405,441	607,198	826,161	1,838,800
Emirates governments	1,585	-	-	1,585
GREs (Gov ownership >50%)	2,843	-	-	2,843
Other corporates	(115,469)	42,339	42,171	(30,959)
High net worth individuals	(11,207)	94,346	(10,390)	72,749
SMEs	2,650	7,806	19,201	29,657
Others	(1,153)	(3,478)	6,586	1,955
ECL allowance as of 30 September 2020	284,690	748,211	883,729	1,916,630

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

28. Covid-19 and expected credit loss (ECL) (continued)

Table 4: Macro overlay added to ECL (stock)

Scope: All clients

As at 30 September 2020

	Non-Covid related overlay amount AED'000	Covid related overlay amount AED'000	Total macro overlay AED'000
<i>Wholesale banking loans:</i>			
Non-government obligors	332,210	31,233	363,443
	<u>332,210</u>	<u>31,233</u>	<u>363,443</u>
Total wholesale banking loans	<u>332,210</u>	<u>31,233</u>	<u>363,443</u>

29. Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the nine month period ended 30 September 2020 and 30 September 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 15 November 2020.