# SHARJAH ISLAMIC BANK PJSC

## CONDENSED CONSOLIDATED
## INTERIM FINANCIAL STATEMENTS
## 30 JUNE 2020

# SHARJAH ISLAMIC BANK PJSC

## Directors' Report

The Directors have pleasure in presenting their report together with the condensed consolidated interim financial statements of SHARJAH ISLAMIC BANK PJSC ("the Bank") and its subsidiaries (together referred as the "Group") for the six month period ended 30 June 2020.

**Financial highlights**

The Group has reported a profit of AED 251.2 million for the six-months period ended 30 June 2020 compared to AED 290.5 million for the corresponding prior period, a decrease of 13.5%.

Compared to December 2019, total assets increased by AED 6.3 billion to reach AED 52.7 billion, an increase of 13.5%. Investments in Islamic financing increased by 15.6% (AED 3.9 billion) to reach AED 29.1 billion and customer deposits experienced a growth of 18% (AED 4.9 billion) to reach AED 32.2 billion.

Abdul Rahman Mohammed Nasser Al Owais
Chairman
22 July 2020

**SHARJAH ISLAMIC BANK PJSC**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

(Currency: Thousands of U.A.E Dirhams)

| | *Notes* | **30 June 2020 Un-audited** | **31 December 2019 Audited** |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with banks and financial institutions | *6* | **3,247,548** | 2,450,754 |
| Murabaha and wakalah with financial institutions | *7* | **7,579,225** | 7,948,109 |
| Investment in Islamic financing | *8* | **29,077,616** | 25,142,892 |
| Investment securities | *9* | **7,644,185** | 5,827,239 |
| Investment properties | | **2,774,172** | 2,699,959 |
| Properties held-for-sale | | **595,715** | 579,478 |
| Other assets | | **810,288** | 817,809 |
| Property and equipment | *10* | **941,295** | 924,221 |
| **Total assets** | | **52,670,044** | **46,390,461** |
| | | | |
| **Liabilities and shareholders' equity** | | | |
| **Liabilities** | | | |
| Customers deposits | *11* | **32,238,014** | 27,313,057 |
| Due to banks | | **6,560,434** | 5,128,007 |
| Sukuk payable | *12* | **5,501,892** | 5,503,139 |
| Other liabilities | *13* | **831,978** | 854,636 |
| Zakat payable | | **2,276** | 62,435 |
| **Total liabilities** | | **45,134,594** | **38,861,274** |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | *14* | **3,081,598** | 2,934,855 |
| Tier 1 sukuk | *15* | **1,836,500** | 1,836,500 |
| Legal reserve | | **1,467,428** | 1,467,428 |
| Statutory reserve | | **89,008** | 89,008 |
| General impairment reserve | | **160,612** | 132,745 |
| Fair value reserve | | **(23,225)** | 23,390 |
| Retained earnings | | **923,529** | 1,045,261 |
| **Total shareholders' equity** | | **7,535,450** | **7,529,187** |
| **Total liabilities and shareholders' equity** | | **52,670,044** | **46,390,461** |

These condensed consolidated interim financial statements were authorised for issue in accordance with a resolution of the Directors on 22 July 2020.

| | |
|---|---|
| Abdul Rahman Mohammed Nasser Al Owais<br>Chairman | Mohammed Ahmed Abdullah<br>Chief Executive Officer |

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

**SHARJAH ISLAMIC BANK PJSC**
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(Currency: Thousands of U.A.E. Dirhams)

| | **Three month period ended 30 June** | | **Six month period ended 30 June** | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **Un-audited** | **Un-audited** | **Un-audited** | **Un-audited** |
| Income from Islamic financing and sukuks | **430,242** | 445,721 | **854,119** | 880,826 |
| Profit expense on sukuks | **(35,505)** | (47,655) | **(81,056)** | (95,268) |
| Investment, fees, commission and other income | **45,748** | 53,928 | **102,998** | 117,058 |
| Income from subsidiaries | **14,547** | 20,809 | **35,725** | 42,245 |
| **Total income** | **455,032** | **472,803** | **911,786** | **944,861** |
| General and administrative expenses | **(134,014)** | (141,331) | **(268,990)** | (284,191) |
| **Net operating income before provisions and distribution to depositors** | **321,018** | **331,472** | **642,796** | **660,670** |
| Provisions - net of recoveries | **(67,554)** | (14,662) | **(81,098)** | (15,326) |
| **Net operating income before distribution to depositors** | **253,464** | **316,810** | **561,698** | **645,344** |
| Distribution to depositors | **(155,922)** | (178,013) | **(310,496)** | (354,801) |
| **Profit for the period** | **97,542** | **138,797** | **251,202** | **290,543** |
| (Attributable to the shareholders of the Bank) | | | | |
| **Basic and diluted earnings per share (U.A.E. Dirhams)** | **0.03** | **0.05** | **0.08** | **0.10** |

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

**SHARJAH ISLAMIC BANK PJSC**
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(Currency: Thousands of U.A.E. Dirhams)

| | Three month period ended 30 June | | Six month period ended 30 June | |
|---|---|---|---|---|
| | **2020 Un-audited** | **2019 Un-audited** | **2020 Un-audited** | **2019 Un-audited** |
| **Profit for the period** | **97,542** | 138,797 | **251,202** | 290,543 |
| **Other comprehensive income** | | | | |
| **Items that will be reclassified to profit or loss** | | | | |
| Net change in fair value reserve on sukuk investments classified at FVTOCI | **36,022** | 16,886 | **(14,864)** | 53,389 |
| **Items that will not be reclassified to profit or loss** | | | | |
| Net change in fair value reserve on equity investments classified at FVTOCI | **(14,320)** | (23,752) | **(32,011)** | 9,885 |
| **Total comprehensive income for the period** | **119,244** | **131,931** | **204,327** | **353,817** |

(Attributable to the shareholders of the Bank)

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

**SHARJAH ISLAMIC BANK PJSC**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(Currency: Thousands of U.A.E. Dirhams)

| | **Six month period ended 30 June 2020 Un-audited** | **Six month period ended 30 June 2019 Un-audited** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period | **251,202** | 290,543 |
| Adjustments for: | | |
| - Depreciation | **24,870** | 26,798 |
| - Amortisation of sukuk issuance costs | **1,457** | 1,768 |
| - Provision charge for the period | **81.98** | 15,326 |
| - Gain on sale of properties held-for-sale | **(3,786)** | (2,926) |
| **Operating profit before changes in operating assets and liabilities** | **354,841** | **331,509** |
| Changes in: | | |
| - Reserve with UAE Central Bank | **675,169** | (88,141) |
| - Murabaha and wakalah with financial institutions | **1,336,658** | 445,405 |
| - Investments in Islamic financing | **(4,015,822)** | (609,145) |
| - Other assets | **7,521** | 240,469 |
| - Customers' deposits | **4,924,957** | 1,762,145 |
| - Due to banks | **1,190,536** | (1,262,026) |
| - Zakat payable | **(60,159)** | (61,471) |
| - Other liabilities | **(28,068)** | 98,685 |
| **Net cash generated from operating activities** | **4,385,633** | **857,430** |
| **Cash flows from investing activities** | | |
| Acquisition of properties and equipment | **(41,944)** | (68,518) |
| Acquisition of investment properties | **(74,213)** | (246,038) |
| Disposal of investment properties | **-** | 8,744 |
| Acquisition of properties held-for-sale | **(30,598)** | (28,221) |
| Disposal of properties held-for-sale | **18,147** | 17,834 |
| Acquisition of investment securities | **(2,579,884)** | (360,952) |
| Disposal / redemption of investment securities | **716,063** | 907,446 |
| **Net cash (used in) / from investing activities** | **(1,992,429)** | **230,295** |
| **Cash flows from financing activities** | | |
| Issuance of sukuk | **1,833,797** | - |
| Repayment of sukuk | **(1,836,500)** | - |
| Profit paid on tier 1 sukuk | **(45,912)** | - |
| Cash dividend | **(146,742)** | (234,788) |
| **Net cash used in financing activities** | **(195,358)** | **(234,788)** |
| **Net increase in cash and cash equivalents** | **2,197,847** | 852,937 |
| Cash and cash equivalents at the beginning of the period | **4,781,727** | 3,093,288 |
| **Cash and cash equivalents at the end of the period** | **6,979,574** | **3,946,225** |
| **Cash and cash equivalents comprise of:** | | |
| Cash and balances with banks and financial institutions | **2,233,454** | 1,008,154 |
| Murabaha and wakalah with financial institutions | **6,583,109** | 3,839,918 |
| Due to banks | **(1,836,989)** | (901,847) |
| | **6,979,574** | **3,946,225** |

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

**SHARJAH ISLAMIC BANK PJSC**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(Currency: Thousands of U.A.E. Dirhams)

| | | | | | | | ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Tier 1 sukuk | Legal reserve | Statutory reserve | General impairment reserve | Fair value reserve | Retained earnings | Total shareholders' equity |
| **As at 1 January 2019 (Audited)** | 2,934,855 | - | 1,429,264 | 89,008 | 66,717 | (87,537) | 955,325 | 5,387,632 |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 290,543 | 290,543 |
| **Other comprehensive income** | | | | | | | | |
| Net change in fair value reserve | - | - | - | - | - | 63,274 | - | 63,274 |
| **Total comprehensive income for the period** | - | - | - | - | - | 63,274 | 290,543 | 353,817 |
| **Transactions recorded directly in equity** | | | | | | | | |
| Realised loss on equity investments measured at FVTOCI transferred to retained earnings | - | - | - | - | - | 18,652 | (18,652) | - |
| Dividends declared | - | - | - | - | - | - | (234,788) | (234,788) |
| Board of directors' fees | - | - | - | - | - | - | (5,387) | (5,387) |
| Total | - | - | - | - | | 18,652 | (258,827) | (240,175) |
| **As at 30 June 2019 (Un-audited)** | 2,934,855 | - | 1,429,264 | 89,008 | 66,717 | (5,611) | 987,041 | 5,501,274 |
| **As at 1 January 2020 (Audited)** | 2,934,855 | 1,836,500 | 1,467,428 | 89,008 | 132,745 | 23,390 | 1,045,261 | 7,529,187 |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 251,202 | 251,202 |
| **Other comprehensive income** | | | | | | | | |
| Net change in fair value reserve | - | - | - | - | - | (46,875) | - | (46,875) |
| **Total comprehensive income for the period** | - | - | - | - | - | (46,875) | 251,202 | 204,327 |
| **Transactions recorded directly in equity** | | | | | | | | |
| Realised loss on equity investments measured at FVTOCI transferred to retained earnings | - | - | - | - | - | 260 | (260) | - |
| Bonus shares issued | 146,743 | - | - | - | - | - | (146,743) | - |
| Cash dividends | - | - | - | - | - | - | (146,742) | (146,742) |
| Transfer to general impairment reserve | - | - | - | - | 27,867 | - | (27,867) | - |
| Profit paid on tier 1 sukuk | - | - | - | - | - | - | (45,912) | (45,912) |
| Board of directors' fees | - | - | - | - | - | - | (5,410) | (5,410) |
| Total | 146,743 | | | | 27,867 | 260 | (372,674) | (198,064) |
| **As at 30 June 2020 (Un-audited)** | 3,081,598 | 1,836,500 | 1,467,428 | 89,008 | 160,612 | (23,225) | 923,529 | 7,535,450 |

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

## 1. Legal status and activities

SHARJAH ISLAMIC BANK PJSC (the "Bank") was incorporated in 1975 as a public joint stock company by Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and is listed on the Abu Dhabi Securities Exchange. The Bank is engaged in banking, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulations of the UAE Central Bank, which are carried out through its 34 branches (2019: 36 branches) established in the United Arab Emirates.

At an extraordinary shareholder's meeting held on 18 March 2001, a resolution was passed to transform the Bank's activities to be in full compliance with Islamic Shari'a rules and principles. The entire process was completed on 30 September 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the six month period ended 30 September 2002 after negotiation and agreement with its customers.

The condensed consolidated interim financial statements of the Bank comprise the Bank and its fully owned subsidiaries incorporated in the United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Services LLC (SIFS) and ASAS Real Estate as well as special purpose vehicles established in the Cayman Islands, SIB Sukuk Company III Limited and SIB Tier 1 Sukuk Company Limited, (all together referred to as "the Group"). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. ASAS is involved in the business of real estate. SIB Sukuk Company III Limited and SIB Tier 1 Sukuk Company Limited were established for the Bank's Sukuk program.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

## 2. Basis of preparation

### a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Selected explanatory notes, particularly in relation to the adoption of IFRS 16, are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2020. These condensed consolidated interim financial statements do not include all of the information required for a full set of annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group as at and for the year ended 31 December 2020.

### b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for the following material items in the condensed consolidated interim statement of financial position:

- financial assets at fair value through profit or loss (FVTPL);
- financial assets at fair value through other comprehensive income (FVTOCI); and
- investment properties at fair value.

## 2. Basis of preparation (continued)

### c) Functional and reporting currency

These condensed consolidated interim financial statements have been prepared in UAE Dirhams (AED), which is the Group's functional and presentation currency. All information presented in AED has been rounded to the nearest thousand, except when otherwise stated.

## 3. Summary of significant accounting policies

The accounting policies applied by the Group in preparation of these condensed consolidated interim financial statements are consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2020.

## 4. Key accounting estimates and judgments

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

In preparing these condensed consolidated interim financial statements, significant judgement is exercised by management in applying the Group's accounting policies. The key sources of estimation uncertainty are consistent with the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019, with the exception of the impact of the COVID - 19 outbreak on the Group which is detailed below:

### Impact of COVID-19

On 11 March 2020, the World Health Organisation ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. This note describes the impact of the outbreak on the Bank's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 30 June 2020.

### i) Credit risk management

In response to the COVID-19 outbreak, the Bank's Risk management division identified the vulnerable sectors that are significantly impacted by this stressed situation, and reviews are being conducted on a more frequent basis. The existing corporate credit lines are being reviewed and the utilization is being closely monitored. The Bank enjoys a well-diversified financing portfolio where Government and GRE represents more than 36% (31 December 2019: 27%).

The Bank has been extra vigilant in underwriting to companies in the vulnerable sectors, especially for any New-to-Bank customers. Extra measures, such as requiring additional approvals for disbursals of facilities have been implemented to ensure a high level of scrutiny over the credit management process. The Bank is conducting frequent reviews of the Loan to Value ("LTV") ratios on the securities held against facilities, specifically securities which are illiquid in nature. Moreover, the management has reviewed all of its credit lending policies to address the current increasing economic risk for different sectors.

In addition to the above and as explained in note 4 (ii) liquidity risk management, as required by the Joint Guidance issued in April 2020 for clients benefitting from payment deferrals, the Bank has considered the following principles for the classification of the customers into Group 1 and Group 2":

## 4. Key accounting estimates and judgments (continued)

### Impact of COVID-19 (continued)

### i) Credit risk management (continued)

**Group 1: clients that are temporality 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 clients are expected to face liquidity constraints without substantial changes in their creditworthiness.

For these clients, the Bank holds the view that, despite being subject to payment deferrals, there is insufficient deterioration in credit quality to trigger a stage migration. These clients will remain in their current stage, at least for the duration of the crisis, or their distress, whichever is the shorter. For instance, this would apply to industries that are expected to rapidly return to normal business conditions as confinement policy decisions are over.

**Group 2: clients that are expected to be significantly impacted by Covid-19 in the long term.**

These are the clients whose businesses are directly impacted by COVID-19. These clients are expected to face changes in their creditworthiness beyond liquidity issues leading to deterioration in credit risk. Consequently, exposure from these clients are reported as stage 2.

Due to the possibility of later economic rebound, these clients are not expected to migrate to IFRS 9 stage 3 based on their financial performance during the period of the crisis. In exceptional circumstances, such stage 3 migration can be triggered by liquidation/ bankruptcy caused by non-financial events (such as fraud) or significant disruptions threatening the long-term sustainability of the clients' business model. Consequently, the Bank continues to monitor the creditworthiness of these clients, particularly indications of potential inability to pay any of their obligations as and when they become due.

As of the reporting date, the Bank is still under the process of assessing its clients awarded deferment of classifying them into Group 1 and Group 2.

### ii) Use of estimates and judgements

The spread of COVID-19 rapidly increased in April 2020 as the number of cases spiked, and governments around the world deployed a multitude of measures to combat the virus and protect their economies. The Group is constantly monitoring the current situation as it unfolds, noting that there is limited economic data available to accurately evaluate the impact of the outbreak on the UAE economy, and on the Bank's financial position as at 30 June 2020.

The Bank exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. Given the uncertainty and limited forward looking information, the Bank has taken the approach of implementing a judgmental overlay to the ECL model by changing its macroeconomic weightages. Going forward, the Bank will continue to monitor and evaluate the impact of the outbreak, and will consider adjusting its ECL model in subsequent reporting periods, if required**.**

### Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro economic scenarios and weightages will have on the Bank's Expected Credit losses, the Bank has further strengthened its processes, controls and governance frameworks around macro economic forecasting and the computation of Expected Credit losses. The Bank's IFRS 9 Committee, which reports to the Executive Management, has primary responsibility for overseeing the Bank's ECL models. To ensure the ongoing integrity of ECL calculations during times of extreme uncertainty and volatility, the Bank's IFRS 9 Committee will be exercising oversight by conducting regular reviews of the portfolio. The committee will closely monitor the macro economic inputs applied to the IFRS 9 model at the bank and recommend changes required over the period in the light of relevant information received. The committee will continually assess the performance of the Bank's portfolio, ensuring that credit risk behaviors align with the significant increase in credit risk policy and that the staging criteria remain relevant.

**4. Key accounting estimates and judgments (continued)**

**Impact of COVID-19 (continued)**

**ii) Use of estimates and judgements (continued)**

**Governance around IFRS 9 ECL models and calculations (continued)**

The IFRS 9 Committee has reviewed the inputs and assumptions for IFRS 9 ECL measurement in light of available information. While it is challenging to estimate the impact of COVID-19 on our ECL estimates as the situation is still evolving, it is expected to have a deep impact on the macro-economic environment. The Bank has assessed the impact of the crisis and changed the weightages assigned to the scenario probabilities of its ECL models from a 20% weightage to the upward scenario as of 31 December 2019 to a 0% weightage to the upward scenario as of 30 June 2020. If the adverse scenario probability was further increased by 20%, impairment loss allowance would increase by AED 11.5 million.

The Bank considers a range of possible outcomes and their respective probabilities, and to apply judgement in determining what constitutes reasonable and forward looking information. The volatility caused by the current situation has been reflected through adjustment in the methods of forward looking scenario construction. These adjustments reflect the macroeconomic overlays as suggested in the Joint Guidance Note on IFRS 9 by CBUAE. The most significant period-end assumptions used for ECL estimate includes next 5-year average oil price ranging between US$ 20/barrel to US$ 63/barrel, equity price index growth volatility ranging between -47% to 25%, non-oil UAE GDP range falling 4.5% to rising 5.4% and UAE CPI index range falling 0.3% to rising 4.3%.

Judgement is also required in estimating EAD, particularly for Islamic financing commitments, including letters of credit and guarantee, and revolving credit facilities such as credit cards, where deterioration in the macro economic environment is generally accompanied by an increase in the volumes and duration of the drawdowns. Credit conversion factor used by the Bank for unutilized limits has been set at 20%, thus stressing EAD to current situation.

The COVID 19 related impact on LGD, the Bank has computed ECL using stressed BASEL LGD of 60% for real estate, construction and contracting and consumer home financing. Islamic financing to individuals' accounts for 10% of the total gross portfolio; ECL on which has been computed based on stressed LGD of as high as 91.9%.
Management will continually monitor how the economic conditions change over the next reporting period and will re- evaluate the adequacy of downside weight, and adverse effect, if any, will be accounted for.

**iii) Liquidity risk management**

The UAE Central Bank has announced AED 256 billion stimulus package in an attempt to combat the above effects of COVID-19 and ease the liquidity constraints in the UAE Banking Sector, by providing relief to the local economy.

The stimulus package includes the following:

- Launch of the Targeted Economic Support Scheme ('TESS'), which allows banks to grant temporary relief to certain customers in the way of deferring payments for up to 6 months, and allowing banks to apply for zero-cost funding from the Central Bank. The Zero cost facility ("ZCF") consists of collateralized CBUAE liquidity facilities provided to eligible counter parties under the TESS program. Funds borrowed by the Bank under the ZCF are priced at zero profit rate and the Bank is expected to pass on this zero-cost benefit, at a minimum, to its clients who have been identified to be eligible as per TESS guidelines;
- Granted an extension of the capital buffer relief to 31 December 2021 for banks participating in the TESS Program:
- Reduction of the reserve requirements by half for demand deposits for all banks, from 14% to 7%; and
- Planned implementation of certain Basel III capital requirements will be postponed to 31 March 2021.

## 4. Key accounting estimates and judgments (continued)

### Impact of COVID-19 (continued)

### iii) Liquidity risk management (continued)

The Group's management of liquidity risk is disclosed in note 4 (ii) (b) to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019. In response to the COVID 19 outbreak, the Bank is evaluating its liquidity and funding position and has taken into consideration all the reliefs provided by the Central Bank. Further, the Bank has taken the following actions to manage liquidity risks:

1) Monitoring the movements and composition of its deposits on a daily basis;
2) Monitoring the adherence to regulatory ratios, including ELAR and LSRR on a daily basis. As of reporting date ELAR stands at 15%, well above the minimum requirement of 10% (without incentive from CBUAE) and 7% (after reduction in the requirement from CBUAE), whereas LSRR stands at 70.33% as against the maximum allowed of 100% by CBUAE.
3) Developing contingency plans and opening up new funding lines in the treasury and inter-bank markets of other GCC countries;
4) Developing stress testing scenarios to assess the impact on the Bank in extreme stress; and
5) Bank as of the reporting date holds sovereign marketable securities amounting AED 1.4 billion which can be utilised in case of extreme liquidity shortage, if required.

As at 30 June 2020, out of CBUAE's total funding program of AED 50 billion under ZCF, an amount of AED 825.8 million has been earmarked for the Bank, maturing on 31 December 2020. The Bank has pledged Islamic certificate of deposits of equivalent amount to CBUAE against ZCF. The benefit has been passed onto customers in the form of payment reliefs (installment deferrals). The Bank continues to accrue profit on payment deferrals provided to the ijara financing receivable customers and there will be no significant change to the present value of future cash flows due to these deferrals. Currently, the Bank is closely monitoring it's liquidity position and risks arising due to the COVID-19 crisis.

### iv) Fair value measurement of financial instruments

The Bank's existing policy on fair value measurement of financial instruments is disclosed in note 3 (b) (v) to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019.
Given the significant impact of the COVID-19 pandemic on the global financial markets, the bank is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario.

### v) Investment properties

Based on management's assessment, the Bank has not identified any significant impact to the fair values of investment properties for the second quarter of 2020. As the situation continues to unfold, the Bank will consistently monitor the market and ensure that the prices used by the Bank are an accurate representation of fair value in accordance with the requirements of IFRS 13.

## 4. Key accounting estimates and judgments (continued)

### Impact of COVID-19 (continued)

### vi) Capital adequacy initiatives

The outreaching impact of COVID 19 is expected to impact the Bank's Risk Weightage Assets via higher charges arising from increased volatility and higher counter party risks. The implementation of the requirements of IFRS 9 Expected Credit Losses in a less favorable economic outlook is expected to increase the credit risk weights of financing and also increase provision allowances and hence impacts the Bank's strong capital adequacy, which currently stands at 21.24% (31 December 2019: 22.79%). The Bank expects CAR in an extreme stressed scenario to remain well above the UAE banking sector average and the baseline CBUAE BASEL III requirement of 13% including capital conservation buffer of 2.5%, 11.5%.

In order to relieve the pressure on financial institutions, the CBUAE, vide its official paper issued on 5 April 2020, has allowed banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of the expected volatility due to the COVID 19 crisis. The filter will allow Banks to partially add incremental ECL provisions back to their Tier 2 capital for the purpose of calculating capital adequacy ratios. Banks are however required to reverse this capital benefit in a gradual and phased manner over a period of 5 years (ending on 31 December 2024). The CBUAE has also granted extension of the capital buffer relief to 31 December 2021 for banks enrolled in the TESS program.

The Bank's Risk Committee, in liaison with the Risk Management department is constantly monitoring the developments in relation to the outbreak and is continually monitoring the Bank's ability to maintain adequate capital levels at all times, in both existing and stressed scenarios.

### vii) Business continuity plan

In light of current scenarios caused by COVID 19, the Bank has activated its business continuity policy (BCP). In light of the BCP, the Bank has established a system of a secured remote access management system with dual authentication access and functioning of its operations, IT systems and client’s digital channels. For this purpose the Bank has designed standard operating procedures which are duly followed. The Bank also has appropriate cyber security architecture to support its commercial assets and customers without any interruption to business activities through its comprehensive digital channels. Moreover, the bank has engaged with a third party to review the security of the current working environment.

### viii) Concentration analysis

Please refer to note 7 to the condensed consolidated interim financial statements, which discloses the product and sector wise categorization of Investment in Islamic financing as at 30 June 2020.

## 5. Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the annual consolidated financial statements as at and for the year ended 31 December 2020.

### a) Maximum exposure to credit risk

The table below is the maximum exposure to credit risk for the Group and is shown gross, before any mitigation of collateral.

| | 30 June 2020 (Un-audited) | | | |
|---|---|---|---|---|
| | ECL Staging | | | |
| | **Stage 1 12 month** | **Stage 2 Lifetime** | **Stage 3 Lifetime** | **Total** |
| ***Cash and balances with banks and financial institutions*** | **540,146** | **-** | **-** | **540,146** |
| Loss allowance | **-** | **-** | **-** | **-** |
| Carrying amount | **540,146** | **-** | **-** | **540,146** |
| ***Murabaha and wakalah with financial institutions*** | **4,079,553** | **-** | **-** | **4,079,553** |
| Loss allowance | **(328)** | **-** | **-** | **(328)** |
| Carrying amount | **4,079,225** | **-** | **-** | **4,079,225** |
| ***Investments in Islamic financing*** | **26,768,613** | **1,998,912** | **1,492,214** | **30,259,739** |
| Loss allowance | **(233,640)** | **(103,418)** | **(845,065)** | **(1,182,123)** |
| Carrying amount | **26,534,973** | **1,895,494** | **647,149** | **29,077,616** |
| ***Investment securities measured at amortised cost*** | **5,452,455** | **-** | **62,337** | **5,514,792** |
| Loss allowance | **(7,561)** | **-** | **(53,065)** | **(60,626)** |
| Carrying amount | **5,444,894** | **-** | **9,272** | **5,454,166** |
| ***Investment securities measured at FVTOCI*** | **1,144,307** | **-** | **-** | **1,144,307** |
| Loss allowance | **(669)** | **-** | **-** | **(669)** |
| Carrying amount | **1,143,638** | **-** | **-** | **1,143,638** |
| ***Other assets (excluding non-financial assets)*** | **684,038** | **-** | **29,993** | **714,031** |
| Loss allowance | **(8,397)** | **-** | **(29,993)** | **(38,390)** |
| Carrying amount | **675,641** | **-** | **-** | **675,641** |
| **Net credit risk exposures relating to on-balance sheet assets** | **38,418,517** | **1,895,494** | **656,421** | **40,970,432** |
| ***Letter of credit and guarantee*** | **700,911** | **2,808** | **31** | **703,750** |
| Loss allowance | **(2,531)** | **(47)** | **-** | **(2,578)** |
| **Net credit risk exposures relating to off-balance sheet assets** | **698,380** | **2,761** | **31** | **701,172** |
| | **39,116,897** | **1,898,255** | **656,452** | **41,671,604** |
| **Gross credit risk exposure** | **39,370,023** | **2,001,720** | **1,584,575** | **42,956,318** |
| **Total loss allowance** | **(253,126)** | **(103,465)** | **(928,123)** | **(1,284,714)** |
| | **39,116,897** | **1,898,255** | **656,452** | **41,671,604** |

## 5. Financial risk management (continued)

### a) Maximum exposure to credit risk (continued)

| | 31 December 2019 (Audited) | | | |
|---|---|---|---|---|
| | ECL Staging | | | |
| | **Stage 1 12 month** | **Stage 2 Lifetime** | **Stage 3 Lifetime** | **Total** |
| ***Cash and balances with banks and financial institutions*** | 226,851 | 98 | - | **226,949** |
| Loss allowance | - | - | - | - |
| Carrying amount | **226,851** | **98** | **-** | **226,949** |
| ***Murabaha and wakalah with financial institutions*** | 4,498,456 | - | - | **4,498,456** |
| Loss allowance | (347) | - | - | **(347)** |
| Carrying amount | **4,498,109** | **-** | **-** | **4,498,109** |
| ***Investments in Islamic financing*** | 23,555,984 | 1,354,745 | 1,350,541 | **26,261,270** |
| Loss allowance | (194,801) | (113,428) | (810,149) | **(1,118,378)** |
| Carrying amount | **23,361,183** | **1,241,317** | **540,392** | **25,142,892** |
| ***Investment securities measured at amortised cost*** | 3,620,369 | - | 62,337 | **3,682,706** |
| Loss allowance | (3,174) | - | (53,065) | **(56,239)** |
| Carrying amount | **3,617,195** | **-** | **9,272** | **3,626,467** |
| ***Investment securities measured at FVTOCI*** | 936,472 | - | - | **936,472** |
| Loss allowance | (928) | - | - | **(928)** |
| Carrying amount | **935,544** | **-** | **-** | **935,544** |
| ***Other assets (excluding non-financial assets)*** | 699,147 | 380 | 28,549 | **728,076** |
| Loss allowance | (8,459) | (3) | (28,549) | **(37,011)** |
| Carrying amount | **690,688** | **377** | **-** | **691,065** |
| **Net credit risk exposures relating to on-balance sheet assets** | **33,329,570** | **1,241,792** | **549,664** | **35,121,026** |
| ***Letter of credit and guarantee*** | 441,563 | 3,501 | 31 | **445,095** |
| Loss allowance | (2,089) | (53) | - | **(2,142)** |
| **Net credit risk exposures relating to off-balance sheet assets** | **439,474** | **3,448** | **31** | **442,953** |
| | **33,769,044** | **1,245,240** | **549,695** | **35,563,979** |
| **Gross credit risk exposure** | **33,978,842** | **1,358,724** | **1,441,458** | **36,779,024** |
| **Total loss allowance** | **(209,798)** | **(113,484)** | **(891,763)** | **(1,215,045)** |
| | **33,769,044** | **1,245,240** | **549,695** | **35,563,979** |

## 5. Financial risk management (continued)

### b) Capital adequacy

The capital adequacy ratio is based on Basel III and the Central Bank of the UAE (CBUAE) rules and guidelines:

| | Basel III | |
|---|---|---|
| | **30 June 2020 Un-audited** | **31 December 2019 Audited** |
| ***Capital base*** | | |
| Common Equity tier 1 | **5,548,438** | 5,244,021 |
| Additional tier 1 capital | **1,836,500** | 1,836,500 |
| **Total tier 1 capital base** | **7,384,938** | **7,080,521** |
| **Total tier 2 capital base** | **431,003** | 380,085 |
| **Total capital base** | **7,815,941** | **7,460,606** |
| ***Risk weighted assets*** | | |
| Credit risk | **34,480,205** | 30,406,780 |
| Market risk | **82,833** | 85,650 |
| Operational risk | **2,238,802** | 2,238,802 |
| **Total risk weighted assets** | **36,801,840** | **32,731,232** |
| ***Capital Ratios*** | | |
| Common equity tier 1 ratio | **15.08%** | 16.02% |
| Tier 1 capital ratio | **20.07%** | 21.63% |
| Capital adequacy ratio | **21.24%** | 22.79% |

## 6. Cash and balances with banks and financial institutions

| | | | |
|---|---|---|---|
| Cash | | **629,162** | 533,859 |
| Statutory deposit with CBUAE | | **1,014,094** | 1,689,263 |
| Due from banks | *5.1* | **1,604,292** | 227,632 |
| | | **3,247,548** | **2,450,754** |

6.1 Due from banks includes current account balance with the CBUAE amounting to AED 1.1 million *(31 December 2019: AED 0.8 million).*

## 7. Murabaha and wakalah with financial institutions

| | | | |
|---|---|---|---|
| Murabaha | | **991,739** | 1,267,517 |
| Wakala arrangements | *6.1* | **6,587,486** | 6,680,592 |
| | | **7,579,225** | **7,948,109** |

7.1 Wakala arrangements with financial institutions includes' Islamic certificates of deposit with CBUAE amounting AED 3.5 billion *(31 December 2019: AED 3.5 billion).*

## 8. Investments in Islamic financing

**8.1** Investments in Islamic financing are secured by acceptable forms of collateral to mitigate the related credit risk. Investments in Islamic financing comprise the following:

### a) By Product

| | 30 June 2020 Un-audited | 31 December 2019 Audited |
|---|---|---|
| Vehicle murabaha | **228,294** | 246,861 |
| Goods murabaha | **8,417,958** | 7,248,656 |
| Real estate murabaha | **47,483** | 54,203 |
| Other murabaha receivable | **509,858** | 439,866 |
| Syndicate murabaha | **922,782** | 1,484,639 |
| Gross murabaha financing | **10,126,375** | **9,474,225** |
| Deferred profit | **(1,019,506)** | (820,580) |
| Net murabaha financing | **9,106,869** | **8,653,645** |
| Ijarah | **17,980,687** | 14,658,166 |
| Qard hasan | **368,471** | 267,898 |
| Credit card receivables | **73,884** | 81,202 |
| Istisna | **2,729,828** | 2,600,359 |
| Provision for impaired financing receivables | **(1,182,123)** | (1,118,378) |
| Net Receivables | **29,077,616** | **25,142,892** |

### b) By sector

| | | |
|---|---|---|
| Government departments and authorities | **11,285,221** | 7,263,091 |
| Construction and contracting | **916,547** | 785,486 |
| Manufacturing | **822,812** | 787,450 |
| Transportation | **1,582,816** | 1,599,121 |
| Real estate | **6,316,051** | 6,810,033 |
| Retail businesses | **602,603** | 920,717 |
| Trade | **1,660,957** | 1,557,034 |
| Financial Institutions | **90,178** | 175,740 |
| Services and others | **999,164** | 1,142,987 |
| Individual | **2,980,679** | 2,952,152 |
| Consumer home finance | **1,407,067** | 1,433,029 |
| HNWI | **2,615,150** | 1,655,010 |
| Deferred profit | **(1,019,506)** | (820,580) |
| Provision for impaired financing receivables | **(1,182,123)** | (1,118,378) |
| Net Receivables | **29,077,616** | **25,142,892** |

As at 30 June 2020, the amount of installments deferment to TESS customers is AED 717.3 million. The Bank is currently assessing the allocation of TESS clients into group 1 and 2.

**8. Investments in Islamic financing (continued)**

**8.2** The impact of macro economic overlay added to ECL in accordance with "the joint guidance" on IFRS 9 as issued in April 2020 is as follows:

| | **30 June 2020 (Un- Audited)** | | | **31 December 2019 (Audited)** |
|---|---|---|---|---|
| | **ECL before macro overlays adjustments** | **Macro overlays adjustments to the ECL** | **Total ECL** | **Total ECL** |
| Murabaha | **684,452** | **5,642** | **690,094** | 668,783 |
| Syndicate products | **105,633** | **4,235** | **109,868** | 107,762 |
| Ijara and Istisnaa financing | **317,659** | **26,735** | **344,394** | 306,373 |
| Other products | **37,433** | **334** | **37,767** | 35,460 |
| **Total** | **1,145,177** | **36,946** | **1,182,123** | **1,118,378** |

**8.3** Reconciliations from the opening to the closing balance of the exposure at default (EAD) can be seen below.

| | **30 June 2020 (Un- Audited)** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January 2020 | **23,555,984** | **1,354,745** | **1,350,541** | **26,261,270** |
| Transfer to stage 1 | **20,451** | **(20,451)** | **-** | **-** |
| Transfer to stage 2 | **(652,500)** | **654,193** | **(1,693)** | **-** |
| Transfer to stage 3 | **(125,600)** | **(90,688)** | **216,288** | **-** |
| Net additions / (repayments) | **3,970,278** | **101,113** | **(42,795)** | **4,028,596** |
| Recovery | **-** | **-** | **(18,997)** | **(18,997)** |
| Write-offs | **-** | **-** | **(11,130)** | **(11,130)** |
| Balance at 30 June 2020 | **26,768,613** | **1,998,912** | **1,492,214** | **30,259,739** |

| | **31 December 2019 (Audited)** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January 2019 | **22,631,549** | **1,540,472** | **1,400,928** | **25,572,949** |
| Transfer to stage 1 | 603,736 | (599,170) | (4,566) | **-** |
| Transfer to stage 2 | (1,093,510) | 1,094,905 | (1,395) | **-** |
| Transfer to stage 3 | (99,753) | (128,791) | 228,544 | **-** |
| Net additions / (repayments) | 1,513,962 | (552,671) | 164,879 | 1,126,170 |
| Recovery | - | - | (27,129) | (27,129) |
| Write-offs | - | - | (410,720) | (410,720) |
| Balance at 31 December 2019 | **23,555,984** | **1,354,745** | **1,350,541** | **26,261,270** |

## 8. Investments in Islamic financing (continued)

**8.4** Reconciliations from the opening to the closing balance of the expected credit loss (ECL) can be seen below.

| | 30 June 2020 (Un-audited) | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January 2020 | **194,801** | **113,428** | **810,149** | **1,118,378** |
| Transfer to stage 1 | **1,213** | **(1,213)** | **-** | **-** |
| Transfer to stage 2 | **(8,579)** | **8,579** | **-** | **-** |
| Transfer to stage 3 | **(1,099)** | **(15,569)** | **16,668** | **-** |
| Net re-measurement of loss allowance | **47,304** | **(1,807)** | **42,116** | **87,613** |
| Recovery | **-** | **-** | **(12,738)** | **(12,738)** |
| Write-offs | **-** | **-** | **(11,130)** | **(11,130)** |
| Balance at 30 June 2020 | **233,640** | **103,418** | **845,065** | **1,182,123** |

| | 31 December 2019 (Audited) | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January 2019 | **168,261** | **191,279** | **1,097,211** | **1,456,751** |
| Transfer to stage 1 | 69,506 | (69,329) | (177) | **-** |
| Transfer to stage 2 | (8,510) | 8,510 | - | **-** |
| Transfer to stage 3 | (12,566) | (29,033) | 41,599 | **-** |
| Net re-measurement of loss allowance | (21,890) | 12,001 | 88,189 | **78,300** |
| Recovery | - | - | (5,953) | **(5,953)** |
| Write-offs | - | - | (410,720) | **(410,720)** |
| Balance at 31 December 2019 | **194,801** | **113,428** | **810,149** | **1,118,378** |

## 9. Investment securities

| | 30 June 2020 Un-audited | 31 December 2019 Audited |
|---|---|---|
| *Financial assets at fair value through profit or loss* | | |
| - Equity and funds | **40,844** | 40,624 |
| - Sukuk | **70,656** | 256,778 |
| | **111,500** | **297,402** |
| *Financial assets at fair value through other comprehensive income* | | |
| - Equity and funds | **934,881** | 967,826 |
| - Sukuk | **1,144,307** | 936,472 |
| | **2,079,188** | **1,904,298** |
| Less: Loss allowance on financial assets measured at FVTOCI | **(669)** | (928) |
| | **2,078,519** | **1,903,370** |
| *Financial assets measured at amortised cost* | | |
| - Sukuk | **5,514,792** | 3,682,706 |
| Less: Loss allowance on financial assets measured at amortised cost | **(60,626)** | (56,239) |
| | **5,454,166** | **3,626,467** |
| | **7,644,185** | **5,827,239** |

**9.1** Sukuk held at amortised cost include AED 3,601 million *(31 December 2019: AED 3,271 million)* pledged against a collateralized commodity murabaha arrangement.

## 10. Property and equipment

| | | |
|---|---|---|
| Freehold land and buildings | **726,636** | 733,868 |
| Equipment, furniture and fittings | **14,009** | 16,371 |
| Computer equipment | **48,676** | 52,901 |
| Motor vehicles | **828** | 1,195 |
| Right of use assets | **56,644** | 60,955 |
| Capital - work in progress | **94,502** | 58,931 |
| | **941,295** | **924,221** |

## 11. Customers' deposits

| | | |
|---|---|---|
| Current accounts | **7,909,454** | 7,268,962 |
| Saving accounts | **2,520,229** | 2,227,267 |
| Watany / call accounts | **872,027** | 417,513 |
| Time deposits | **20,278,326** | 16,795,806 |
| Margins | **657,978** | 603,509 |
| | **32,238,014** | **27,313,057** |

## 12. Sukuk payable

| Name of instrument | Maturity date | 30 June 2020 Un-audited | | 31 December 2019 Audited | |
|---|---|---|---|---|---|
| | | Carrying value | Profit rate | Carrying value | Profit rate |
| SIB Sukuk 2025 | 22 June 2025 | **1,833,796** | 2.850% | - | - |
| SIB Sukuk 2020 | 17 March 2020 | **-** | - | 1,836,289 | 2.843% |
| SIB Sukuk 2021 | 8 September 2021 | **1,834,888** | 3.084% | 1,834,222 | 3.084% |
| SIB Sukuk 2023 | 17 April 2023 | **1,833,208** | 4.231% | 1,832,628 | 4.231% |
| **Total** | | **5,501,892** | | **5,503,139** | |

The Bank through a Shari'a compliant medium term financing arrangement raised a US$ denominated sukuk amounting to AED 1.83 billion (US$ 500 million) on 23 June 2020. The sukuk is listed on the Euronext Dublin and NASDAQ Dubai.

The terms of the arrangement include a transfer of certain Shari'a compliant investment securities of the Bank (the "Co-owned assets") to SIB Sukuk Company III Limited (the "Issuers"), a special purpose vehicle formed for issuance of the sukuk. In substance, the co-owned assets remain in control of the Bank, accordingly these assets continue to be recognised in the Group's consolidated financial statements.

The Issuers will pay the semi-annual distribution amount from the returns received in respect of the Co-owned assets. Such returns are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on each semi-annual distribution date. Upon maturity, the Bank has undertaken to repurchase the assets at the exercise price of AED 1.83 billion (US$ 500 million).

## 13. Other liabilities

| | 30 June 2020 Un-audited | 31 December 2019 Audited |
|---|---|---|
| Profit payable | **219,438** | 242,156 |
| Accrual and provision | **44,102** | 47,974 |
| Accounts payable | **96,077** | 142,626 |
| Provision for staff end of service benefits | **73,281** | 70,769 |
| Managers' cheques | **29,733** | 24,462 |
| Obligations under acceptances | **123,795** | 102,708 |
| Sundry creditors | **245,552** | 223,941 |
| | **831,978** | **854,636** |

## 14. Share capital

The Bank's issued and fully paid up share capital comprises 3,081,598,000 shares of AED 1 each.

| | | 30 June 2020 Un-audited | | 31 December 2019 Audited | |
|---|---|---|---|---|---|
| | | No. of shares | Value | No. of shares | Value |
| Share capital | **13.1** | **3,081,598,000** | **3,081,598** | 2,934,855,000 | 2,934,855 |

**14.1** During the period, the Bank has issued bonus shares comprising of 146,743,000 shares of AED 1 each. The bonus issue was approved in the annual general meeting held on 22 February 2020.

## 15. Tier 1 sukuk

In July 2019, the Bank issued Shari'ah compliant Tier 1 sukuk through an SPV, SIB Tier 1 Sukuk Company Limited, ("the issuer") amounting to USD 500 million (AED 1,836.5 million) at par.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudarabah Agreement. These sukuk are expected to pay profit semi-annually of 5% each year, commencing from 02 July 2019. The expected profit rate will be reset to a new fixed rate on the basis of the then prevailing reoffer spread of 321.30 bps on 02 July 2025 ("the first reset date") and every 6 years thereafter. These sukuk are listed on Euronext Dublin and Nasdaq Dubai and are callable by the Bank on 02 July 2025 ("the first call date") or any profit payment date thereafter subject to certain redemption conditions. The net proceeds of Tier 1 are invested by the Bank in its general business activities on a co-mingling basis.

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

## 16. Segment reporting

The Group's activities comprise the following main business segments:

### a) Government and corporate

Within this business segment the Bank provides companies, institutions and government and government departments with a range of Islamic financial products and services. This includes exposure to high net worth individuals.

### b) Retail

The retail segment provides a wide range of Islamic financial services to individuals.

### c) Investment and treasury

This segment mainly includes wakalah deals with other financial institutions, investments securities, investment properties and other money market activities.

### d) Real estate, hospitality, and brokerage

The Bank on its own and through its subsidiary ASAS provides real estate services, whereas SNH and SIFS provides hospitality and brokerage services respectively.

**16. Segment reporting (continued)**

| For the six months period ended 30 June 2020 : | Corporate and government | Retail | Investment and treasury | Hospitality, brokerage and real estate | Total |
|---|---|---|---|---|---|
| **Condensed consolidated interim statement of profit or loss:** | | | | | |
| Income from investments in Islamic financing and sukuks | **464,025** | **168,736** | **221,358** | **-** | **854,119** |
| Profit expense on sukuks | **-** | **-** | **(81,056)** | **-** | **(81,056)** |
| Investments, fees, commission and other income | **54,615** | **29,055** | **19,328** | **-** | **102,998** |
| Income from subsidiaries | **-** | **-** | **-** | **35,725** | **35,725** |
| **Total income** | **518,640** | **197,791** | **159,630** | **35,725** | **911,786** |
| General and administrative expenses | **-** | **-** | **-** | **(25,349)** | **(25,349)** |
| General and administrative expenses – unallocated | **-** | **-** | **-** | **-** | **(243,641)** |
| **Net operating income before provisions and distributions to depositors** | **518,640** | **197,791** | **159,630** | **10,376** | **642,796** |
| Provisions- net of recoveries | **(28,499)** | **(34,150)** | **(17,038)** | **(1,411)** | **(81,098)** |
| **Net operating income before distribution to depositors** | **490,141** | **163,641** | **142,592** | **8,965** | **561,698** |
| Distribution to depositors | **(225,624)** | **(20,823)** | **(64,049)** | **-** | **(310,496)** |
| **Profit for the period** | **264,517** | **142,818** | **78,543** | **8,965** | **251,202** |
| | | | | | |
| **As at 30 June 2020 :** | | | | | |
| **Condensed consolidated interim statement of financial position:** | | | | | |
| **Assets** | | | | | |
| Segment assets | **23,692,247** | **4,670,113** | **22,306,410** | **1,556,025** | **52,224,795** |
| Unallocated assets | **-** | **-** | **-** | **-** | **445,249** |
| **Total assets** | **23,692,247** | **4,670,113** | **22,306,410** | **1,556,025** | **52,670,044** |
| **Liabilities** | | | | | |
| Segment liabilities | **25,186,542** | **5,326,208** | **14,205,109** | **50,359** | **44,768,218** |
| Unallocated liabilities | **-** | **-** | **-** | **-** | **366,376** |
| **Total liabilities** | **25,186,542** | **5,326,208** | **14,205,109** | **50,359** | **45,134,594** |

**16. Segment reporting (continued)**

| For the six months period ended 30 June 2019 (Unaudited): | Corporate and government | Retail | Investment and treasury | Hospitality, brokerage and real estate | Total |
|---|---|---|---|---|---|
| **Condensed consolidated interim statement of profit or loss:** | | | | | |
| Income from investments in Islamic financing and sukuks | 455,282 | 170,619 | 254,925 | - | **880,826** |
| Profit expense on sukuks | - | - | (95,268) | - | **(95,268)** |
| Investments, fees, commission and other income | 51,082 | 32,204 | 33,772 | - | **117,058** |
| Income from subsidiaries | - | - | - | 42,245 | **42,245** |
| **Total income** | **506,364** | **202,823** | **193,429** | **42,245** | **944,861** |
| General and administrative expenses | - | - | - | (12,939) | **(12,939)** |
| General and administrative expenses – unallocated | - | - | - | - | **271,252** |
| **Net operating income before provisions and distributions to depositors** | **506,364** | **202,823** | **193,429** | **29,306** | **660,670** |
| Provisions- net of recoveries | (9,406) | (16,687) | 10,579 | 188 | **(15,326)** |
| **Net operating income before distribution to depositors** | **496,958** | **186,136** | **204,008** | **29,494** | **645,344** |
| Distribution to depositors | (248,269) | (25,327) | (81,205) | - | **(354,801)** |
| **Profit for the period** | **248,689** | **160,809** | **122,803** | **29,494** | **290,543** |
| **As at 31 December 2019 (Audited):** | | | | | |
| **Condensed consolidated interim statement of financial position:** | | | | | |
| **Assets** | | | | | |
| Segment assets | 20,646,300 | 4,869,564 | 18,825,314 | 1,537,870 | **45,879,048** |
| Unallocated assets | - | - | - | - | **511,413** |
| **Total assets** | **20,646,300** | **4,869,564** | **18,825,314** | **1,537,870** | **46,390,461** |
| **Liabilities** | | | | | |
| Segment liabilities | 22,000,618 | 4,923,001 | 11,434,065 | 58,927 | **38,416,611** |
| Unallocated liabilities | - | - | - | - | **444,663** |
| **Total liabilities** | **22,000,618** | **4,923,001** | **11,434,065** | **58,927** | **38,861,274** |

## 17. Related parties

In the normal course of business, the Group enters into various transactions with enterprises and key management personnel which falls within the definition of related parties as defined in IAS 24. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in the opinion of management, are not significantly different from those that could have been obtained from third parties.

At the reporting date, such significant balances include:

| | **30 June 2020 (Un-Audited)** | | | |
|---|---|---|---|---|
| **Condensed consolidated interim statement of financial position** | **Key management personnel** | **Major shareholders** | **Other related parties** | **Total** |
| Investment in Islamic financing | **699,356** | **2,417,219** | **6,548,262** | **9,664,837** |
| Customers deposits | **(207,782)** | **(546,366)** | **(5,144,164)** | **(5,898,312)** |
| Contingent liabilities – off balance sheet | **121,138** | **5,138** | **8,798** | **135,074** |
| **Condensed consolidated interim statement of profit or loss for the six months period ended 30 June 2020 (Unaudited)** | | | | |
| Income from Islamic financing | **14,203** | **49,492** | **60,676** | **124,371** |
| Depositors' share of profit | **(458)** | **(2,613)** | **(43,920)** | **(46,991)** |

| | **31 December 2019 (Audited)** | | | |
|---|---|---|---|---|
| **Condensed consolidated interim statement of financial position** | **Key management personnel** | **Major shareholders** | **Other related parties** | **Total** |
| Investment in Islamic financing | 593,638 | 2,832,627 | 1,773,867 | **5,200,132** |
| Customers deposits | (118,518) | (480,881) | (3,112,358) | **(3,711,757)** |
| Contingent liabilities – off balance sheet | 102,957 | 13,463 | 8,798 | **125,218** |
| **Condensed consolidated interim statement of profit or loss for the six months period ended 30 June 2019 (Unaudited)** | | | | |
| Income from Islamic financing | 14,779 | 72,333 | 87,907 | **175,019** |
| Depositors' share of profit | (532) | (2,281) | (28,204) | **(31,017)** |

Key management compensation includes salaries and other short term benefits of AED 12 million for the six months period ended 30 June 2020 *(six month period ended 30 June 2019: AED 11.9 million)* and post-employment benefits of AED 0.7 million for the six months period ended 30 June 2020 *(six month period ended 30 June 2019: AED 0.7 million).*

## 18. Fair value measurement

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **At 30 June 2020 (Un-Audited)** | | | | |
| **Financial assets** | | | | |
| FVTPL – investment securities | **64,730** | **-** | **46,770** | **111,500** |
| FVTOCI – investment securities | **1,863,117** | **-** | **215,402** | **2,078,519** |
| | **1,927,847** | **-** | **262,172** | **2,190,019** |
| **Non-financial assets** | | | | |
| Investment properties at fair value | **-** | - | **2,774,172** | **2,774,172** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **At 31 December 2019 (Audited)** | | | | |
| **Financial assets** | | | | |
| FVTPL – investment securities | 266,129 | - | 31,273 | **297,402** |
| FVTOCI – investment securities | 1,679,023 | - | 224,347 | **1,903,370** |
| | **1,945,152** | **-** | **255,620** | **2,200,772** |
| **Non-financial assets** | | | | |
| Investment properties at fair value | - | - | **2,699,959** | **2,699,959** |

Management considers that the carrying amounts of financial assets and financial liabilities, measured at amortised cost, recognised in the condensed consolidated interim financial statements approximate their fair values, other than.sukuks measured at amortised cost for which the fair value is calculated using Level 1inputs. The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities and investment properties:

| | 30 June 2020 (Un-audited) | | 31 December 2019 (Audited) | |
|---|---|---|---|---|
| **Financial assets** | **FVTPL** | **FVTOCI** | **FVTPL** | **FVTOCI** |
| Balance as at 1 January | **31,273** | **224,347** | 36,814 | 231,658 |
| Fair value movement | **-** | **(8,945)** | (5,541) | (7,311) |
| Addition | **15,497** | **-** | - | - |
| **Closing balance** | **46,770** | **215,402** | **31,273** | **224,347** |

| **Non-financial assets** | **30 June 2020 (Un-audited)** | **31 December 2019 (Audited)** |
|---|---|---|
| Balance at the beginning of the period | **2,699,959** | 2,318,129 |
| Additions | **74,213** | 304,780 |
| Transfer from held-for-sale | - | 83,144 |
| Disposal | **-** | (8,744) |
| Revaluation gain | **-** | 2,650 |
| **Balance at the end of the period** | **2,774,172** | **2,699,959** |

## 18. Fair value measurement (continued)

The valuation techniques and the inputs used in determining the fair values of level 3 assets is consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2019.

## 19. Interim measurement

The nature of the Group's business is such that income and expense are incurred in a manner, which is not impacted by any form of seasonality. These condensed consolidated interim financial statements were prepared based upon the accrual concept, which requires income and expenses to be recorded as earned or incurred and not as received or paid throughout the period.

## 20. Dividends

During the annual general meeting of the shareholders held on 22 February 2020, a cash dividend of 5% and stock dividend of 5% of the paid up capital, each amounting to AED 146.7 was approved for the year ended 31 December 2019 (2019: 8% dividend, amounting to AED 234.8 million for the year ended 31 December 2018).

## 21. Contingencies and commitments

| | **30 June 2020 Un-audited** | **31 December 2019 Audited** |
|---|---|---|
| Letters of credit | **172,316** | 139,331 |
| Letters of guarantee | **2,045,224** | 2,082,649 |
| Capital commitments | **187,084** | 282,363 |