

Ajman Bank PJSC

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

Ajman Bank PJSC

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Ajman Bank PJSC
Ajman
United Arab Emirates

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **Ajman Bank PJSC** (the “Bank”), as at 30 September 2020, and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows for the nine-month period then ended, Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 Interim financial reporting. Our responsibility is to express a conclusion on this condensed 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 interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 Interim Financial Reporting.

Deloitte & Touche (M.E.)



Musa Ramahi
Registration No. 872
4 November 2020
Dubai
United Arab Emirates

**Condensed interim statement of financial position
As at 30 September 2020**

	Notes	30 September 2020 (unaudited) AED'000	31 December 2019 (audited) AED'000
ASSETS			
Cash and balances with the Central Bank	6	2,172,103	2,546,097
Due from banks and other financial institutions		399,724	658,044
Islamic financing and investing assets, net	7	17,230,863	17,110,570
Islamic investments securities at FVTOCI	8	1,896,276	2,018,901
Investment in associate	9	172,555	74,282
Investment properties	10	365,638	783,362
Property and equipment		132,696	136,210
Other Islamic assets	11	241,408	298,324
Total assets		22,611,263	23,625,790
LIABILITIES AND EQUITY			
Liabilities			
Islamic customers' deposits	12	14,476,825	14,922,760
Due to banks and other financial institutions		5,355,022	5,733,478
Other liabilities	13	264,361	457,233
Total liabilities		20,096,208	21,113,471
Equity			
Share capital	14	2,100,000	2,100,000
Statutory reserve		253,168	253,168
Investment fair value reserve		(59,128)	(7,256)
General impairment reserve	15	104,099	111,583
Retained earnings		116,916	54,824
Total equity		2,515,055	2,512,319
Total liabilities and equity		22,611,263	23,625,790

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim financial statements present fairly in all material respects the financial position, financial performance and cash flows of the Bank.



H.E. Sheikh Ammar Bin Humaid Al Nuaimi
Chairman



Mohamed Abdulrahman Amiri
Chief Executive Officer

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

**Condensed interim income statement (unaudited)
for the nine month period ended 30 September 2020**

	Notes	Three month period ended 30 September		Nine month period ended 30 September	
		2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Operating income					
Income from Islamic financing and investing assets	16	208,917	251,917	656,924	740,162
Islamic investments securities at FVTOCI		33,597	59,251	80,895	121,119
Fees, commissions and other income		2,631	30,010	42,930	109,950
Share of results of associate	9	-	1,382	6,067	1,382
Total operating income before depositors' share of profit		245,145	342,560	786,816	972,613
Depositors' share of profit		(99,838)	(166,119)	(362,644)	(484,709)
Net operating income		145,307	176,441	424,172	487,904
Expenses					
Staff costs		(43,112)	(43,866)	(143,055)	(154,773)
General and administrative expenses		(17,536)	(31,197)	(45,761)	(61,541)
Depreciation of property and equipment		(6,428)	(3,346)	(19,796)	(10,499)
Impairment charge for financial assets	17.2	(65,342)	(75,776)	(159,702)	(150,931)
Total expenses		(132,418)	(154,185)	(368,314)	(377,744)
Profit for the period		12,889	22,256	55,858	110,160
Earnings per share	18	0.006	0.011	0.026	0.051

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

**Condensed interim statement of other comprehensive income (unaudited)
for the nine month period ended 30 September 2020**

	Three month period ended 30 September		Nine month period ended 30 September	
	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Profit for the period	12,889	22,256	55,858	110,160
Other comprehensive income/(loss):				
<i>Item that will not be reclassified subsequently to profit or loss</i>				
Movement in investment fair value reserve for equity instruments at FVTOCI	5,400	1,440	(27,540)	(5,220)
<i>Items that may be reclassified subsequently to profit or loss</i>				
Fair value gain/(loss) on investments securities at FVTOCI	18,037	28,390	(9,608)	104,111
Reclassification adjustments relating to investments securities at FVTOCI	(10,720)	(29,126)	(14,724)	(35,754)
	7,317	(736)	(24,332)	68,357
Other comprehensive income/(loss)	12,717	704	(51,872)	63,137
Total comprehensive income for the period	25,606	22,960	3,986	173,297

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

**Condensed interim statement of changes in equity
for the nine month period ended 30 September 2020**

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	General impairment reserve AED'000	Specific impairment reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2019 (audited)	2,100,000	244,728	(64,325)	-	-	166,445	2,446,848
Profit for the period	-	-	-	-	-	110,160	110,160
Other comprehensive income	-	-	63,137	-	-	-	63,137
Total comprehensive income for the period	-	-	63,137	-	-	110,160	173,297
Transfer to impairment reserve (Note 15)	-	-	-	89,850	30,401	(120,251)	-
Dividends (Note 14)	-	-	-	-	-	(73,500)	(73,500)
Directors' remuneration (Note 14)	-	-	-	-	-	(2,500)	(2,500)
At 30 September 2019 (unaudited)	2,100,000	244,728	(1,188)	89,850	30,401	80,354	2,544,145
At 1 January 2020 (audited)	2,100,000	253,168	(7,256)	111,583	-	54,824	2,512,319
Profit for the period	-	-	-	-	-	55,858	55,858
Other comprehensive loss	-	-	(51,872)	-	-	-	(51,872)
Total comprehensive (loss)/income for the period	-	-	(51,872)	-	-	55,858	3,986
Transfer from impairment reserve (Note 15)	-	-	-	(7,484)	-	7,484	-
Directors' remuneration (Note 14)	-	-	-	-	-	(1,250)	(1,250)
At 30 September 2020 (unaudited)	2,100,000	253,168	(59,128)	104,099	-	116,916	2,515,055

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

**Condensed interim statement of cash flows (unaudited)
for the nine month period ended 30 September 2020**

	Nine month period ended 30 September	
	2020	2019
	AED'000	AED'000
Cash flows from operating activities		
Profit for the period	55,858	110,160
<i>Adjustments for:</i>		
Depreciation of property and equipment	19,796	10,499
Impairment charge on Islamic financing, investing assets and other receivables	159,702	150,931
Income from investment securities	(63,740)	(84,053)
Impairment of property and equipment	-	28
Realized gain on disposal of investment securities	(17,155)	(37,066)
Share of results of associate	(6,067)	(1,382)
Operating cash flows before changes in operating assets and liabilities	148,394	149,117
<i>Changes in operating assets and liabilities</i>		
Increase in Islamic financing and investing assets	(72,323)	(1,337,911)
Decrease in due from banks and other financial institutions	44,669	94,912
Decrease/(increase) in statutory deposit with the Central Bank	216,955	(47,303)
Decrease/(increase) in International murabihat with the Central Bank	540,000	(1,380,000)
Decrease in other assets	49,684	57,241
Decrease in Islamic customers' deposits	(445,935)	(2,366,050)
(Decrease)/increase in due to banks and other financial institutions	(378,456)	3,583,507
(Decrease)/increase in other liabilities	(192,397)	320,491
Payment of directors remuneration	(1,250)	(2,500)
Net cash used in operating activities	(90,659)	(928,496)
Cash flows from investing activities		
Purchase of investment securities	(1,642,796)	(3,001,117)
Proceeds from sale of investment securities	1,728,965	2,498,811
Addition in investment in associate	-	(72,932)
Dividend received from investment in associate	5,794	-
Purchase of property and equipment	(16,282)	(12,362)
Profit income on investment securities	63,048	81,479
Additions to investment property	(3,678)	(27,754)
Proceeds from disposal of investment properties	-	327,000
Proceeds from disposal of investment in subsidiary	124,897	-
Net cash generated from/(used in) investing activities	259,948	(206,875)
Cash flows from financing activity		
Dividends paid	-	(73,500)
Net cash used in financing activity	-	(73,500)
Net increase/(decrease) in cash and cash equivalents	169,289	(1,208,871)
Cash and cash equivalents at the beginning of the period	809,715	2,248,127
Cash and cash equivalents at the end of the period (Note 6)	979,004	1,039,256

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

Notes to the condensed interim financial statements for the nine months period ended 30 September 2020

1. Legal status and activities

Ajman Bank PJSC (the “Bank”) was incorporated as a Public Joint Stock Company. The registered address of the Bank is P.O. Box 7770, Ajman, United Arab Emirates (“UAE”). The Bank was legally incorporated on 17 April 2008 and was registered with the Securities and Commodities Authority (“SCA”) on 12 September 2008 and obtained a license from the Central Bank of the UAE to operate as a Head Office on 14 September 2008. On 1 December 2008, the Bank obtained a branch banking license from UAE Central Bank and commenced its operations on 22 December 2008.

In addition to its Head office in Ajman, the Bank operates through nine branches and two pay offices in the UAE. The financial statements combine the activities of the Bank’s head office and its branches.

The principal activities of the Bank are to undertake banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Mudarba, Musharika, Wakala, Sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia’a principles and within the provisions of its Memorandum and Articles of Association. The detail of the Bank disposal of subsidiary is included in Note 23 to the condensed interim financial statement.

2. Application of new and revised International Financial Reporting Standards (“IFRS”)

2.1 *New and revised IFRS applied with no material effect on the condensed interim financial statements*

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these financial statements. The application of these revised IFRS 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

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 1 <i>Presentation of Financial Statements</i> regarding the definition of material.	1 January 2022
IFRS 17 <i>Insurance Contract</i>	1 January 2023
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.

Notes to the condensed interim financial statements for the nine months period ended 30 September 2020 (continued)

2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

2.2 *New and revised IFRS in issue but not yet effective (continued)*

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

IBOR Transition

Effective from 1 January 2020, the Bank has implemented amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase I of IBOR transactions project) addresses the hedge accounting requirements arising before Inter Bank Offer Rate (“IBOR”) and proposed a hedging relief for such pre replacement hedges. Currently, the Bank does not need to take any hedging relief under the amendments such as relief on forward looking analysis during the period of uncertainty beyond the year 2021 as the Bank does not hold any cash flow or fair value hedge instruments.

Phase 2 of the project relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Bank’s product and services remain a key area of focus and accordingly the management and various stakeholders would assess and support the impact of the transition if it holds any hedge instruments in the near future.

3. Summary of significant accounting policies

As required by the Securities and Commodities Authority of the U.A.E. (“SCA”) Notification No. 2624/2008 dated 12 October 2008, certain required accounting policies have been disclosed in the condensed consolidated interim financial statements.

3.1 *Basis of preparation*

The condensed interim financial statements of the Bank are prepared under the historical cost basis except for certain financial instruments and investment properties, which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These condensed interim financial statements are prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* (“IAS 34”), issued by the International Accounting Standard Board (IASB) and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of these condensed interim financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2019.

These condensed interim financial statements do not include all the information and disclosure required in full financial statements and should be read in conjunction with the Bank’s consolidated financial statements for the year ended 31 December 2019. In addition, 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.

Notes to the condensed interim financial statements for the nine months period ended 30 September 2020 (continued)

3. Summary of significant accounting policies (continued)

3.2 *Financial risk management*

The Bank's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2019.

3.3 *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.

3.4 *Investment property*

Investment properties are held to earn rental income and/or capital appreciation. Investment properties includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties are reported at valuation based on fair value at the end of the reporting period. The 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, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment properties are included in the income statement in the period in which these gains or losses arise.

All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The fair value of investment properties are based on the nature, location and condition of the specific asset.

4. Critical accounting judgments and key sources of estimation of uncertainty

The preparation of condensed 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 interim financial statements, the significant judgments made by management in applying the Bank'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.

COVID-19 Impact on measurement of ECL

The Covid-19 pandemic has had a far-reaching impact on the UAE economy, but slowly the economy is getting back on track post ease of lockdown. For interim period the government and CBUAE has implemented a number of measures to assist the business and minimize the impact of the pandemic through Targeted Economic Support Scheme (TESS).

To incorporate the uncertainty, the bank has updated the IFRS-9 model using the latest macro-economic forecast along with override of post Covid-19 projection provided by World Economic Outlook (WEO). As the projection data is taken after Covid-19 shock, IFRS-9 provision model itself incorporates significant Covid-19 impact across the Bank's exposures. Further to applying this WEO override, the bank has used the overlay strategy with management consensus to assign additional ECL charge by removing the upturn scenario and increased the weight for downturn scenario. Taking into consideration broader level measures and guidelines provided by Central Bank of UAE under the Targeted Economic Support Scheme (TESS). The Bank has done the grouping of the customer based on significant increase in credit risk (SICR). The Bank has also considered guidelines issued by the International Accounting Standards Board (IASB) on 27 March 2020 and Basel Committee issued on 4 April 2020 on determination of expected credit losses.

**Notes to the condensed interim financial statements
for the nine months period ended 30 September 2020 (continued)****4. Critical accounting judgments and key sources of estimation of uncertainty (continued)****COVID-19 Impact on measurement of ECL (continued)**

As advised by CBUAE under TESS guidelines, customer grouping is done looking at the customer profile. Customers who have availed TESS and is facing short term liquidity issues without SICR is retained in group 1, while the customer's with SICR is moved to group 2. Under IFRS 9, Islamic financing and investing assets are required to be moved from Stage 1 to Stage 2 if they have been the subject of a significant increase in credit risk (SICR) since origination.

Reasonableness of Forward Looking Information and probability weights

Despite several challenges associated with doing IFRS-9 provision estimate by incorporating the overall impact of Covid-19. Bank has refreshed the IFRS-9 provision model using the latest macro-economic forecast along with additional shock of macro-economic outlook provided WEO. All the macro-economic variable used within the model has been shocked and applied to incorporate the effect of Covid-19 and bring the forecast in line with recent forecast published by well-known institutions.

The Bank has used the workout LGD model which is purely based on Bank specific data based on its own curing, restructuring, recovery and collateral backing. In addition to incorporation of Covid-19 shock within the IFRS-9 model, the Bank has created additional overlay for corporate and retail portfolio using below set of mechanism.

For corporate portfolio the Bank has done the grouping of the customers who have availed TESS and simultaneously changed the scenario probability weights, to create additional overlay. For the retail portfolio a level of segmentation has been done where in UAE local exposure has been kept out of the grouping consideration (given the financial stability assurance provided to them)

Additional overlay for Corporate & SME portfolio is estimated as follows:

- Group 1: Customers who have availed TESS, and are facing short term liquidity issues without significant increase in credit risk. 12-month ECL is estimated for these customers keeping them in Stage 1
- Group 2: Customers who have availed TESS, and are facing significant increase in credit risk (SICR). Life time ECL is estimated for these customers after classifying them in Stage 2.
- Scenario probability weights are changed from existing (Baseline Scenario: 62.5%, Downturn Scenario: 18.75%, Upturn Scenario: 18.75%) to (Baseline Scenario: 75%, Downturn Scenario: 25%, Upturn Scenario: 0%). Upturn Scenario is taken out of consideration till the time uncertainty persists.

Additional overlay for Retail portfolio is estimated as follows:

- Bank ECL model for the retail portfolio is built on pool level data. Separate models are built for different segments of the retail portfolio (i.e. Home Finance, Auto Finance, and Personal Finance).
- Scenario probability weights are changed from existing (Baseline Scenario: 62.5%, Downturn Scenario: 18.75%, Upturn Scenario: 18.75%) to (Baseline Scenario: 75%, Downturn Scenario: 25%, Upturn Scenario: 0%). Upturn Scenario is taken out of consideration till the time uncertainty persists.
- All the retail exposure for UAE local customers who have availed TESS are not considered for grouping consideration as no significant increase in credit risk is anticipated because of financial assurance provided to them.
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**Notes to the condensed interim financial statements
for the nine months period ended 30 September 2020 (continued)**

4. Critical accounting judgments and key sources of estimation of uncertainty (continued)

COVID-19 Impact on measurement of ECL (continued)

Reasonableness of Forward Looking Information and probability weights (continued)

- By doing broader level assessment for all the expatriate's retail exposure who have availed TESS. Secured exposures which are backed by collateral (i.e. Home Finance, Auto Finance) looked more resilient than unsecured exposure (Personal Finance).
- Looking at overall TESS availed retail expatriates portfolio, 5% of the secured exposures will notice significant increase in credit risk and will move to Group 2 (i.e. Stage 2) whereas 15% of unsecured exposures in this segment will move to Group 2.

The treasury segment of the portfolio comprises mostly of sukuk, and is classified as FVTOCI. Considering much higher level of due diligence for listed securities, any risk associated with the securities immediately gets reflected in the price. The bank has kept the scenario weights intact for this segment of portfolio.

The Credit Department of the Bank will progressively keep on collecting all the information related to status of each customer who has applied for relief in the form of deferral during the current period. As soon as enough information is available to ascertain significant increase in credit risk, the department will classify those customers into Group 2. The same will be presented to the Credit committee for approval on the assignment of the customer to the appropriate stage.

Analysis of clients benefitting from payment deferrals

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

	Corporate banking AED'000	Consumer banking AED'000	Total AED'000
At 30 September 2020 (unaudited)			
Deferral Amount			
Islamic Financing	411,944	137,513	549,457
	<u>411,944</u>	<u>137,513</u>	<u>549,457</u>
Exposures			
Islamic Financing	3,098,839	2,415,114	5,513,953
	<u>3,098,839</u>	<u>2,415,114</u>	<u>5,513,953</u>

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

4. Critical accounting judgments and key sources of estimation of uncertainty (continued)

COVID-19 Impact on measurement of ECL (continued)

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

Below is an analysis of total changes in EAD since 31 December 2019 on customers benefitting from payment deferrals:

	AED'000
EAD as at 1 January 2020	5,383,117
Additions during the period	333,532
Repayments / de-recognition during the period	(202,696)
EAD as at 30 September 2020	5,513,953

Stage migrations estimated as EAD by portfolio since December 2019

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

	12-month ECL AED'000	Lifetime ECL not credit- impaired AED'000	Lifetime ECL credit- impaired AED'000	Total AED'000
Corporate Banking				
EAD as at 1 January 2020	1,904,710	1,014,739	1,114	2,920,563
Transferred from 12-month ECL	(296,804)	277,204	19,600	-
Transferred from Lifetime ECL not credit-impaired	16,681	(33,439)	16,758	-
Transferred from Lifetime ECL credit-impaired	-	1,114	(1,114)	-
Change in exposure	107,417	(14,806)	189	92,800
Originated during the period	85,476	-	-	85,476
Derecognised during the period	-	-	-	-
EAD as at 30 September 2020	1,817,480	1,244,812	36,547	3,098,839
Consumer Banking				
EAD as at 1 January 2020	2,300,451	141,290	20,813	2,462,554
Transferred from 12-month ECL	(97,644)	71,546	26,098	-
Transferred from Lifetime ECL not credit-impaired	37,502	(61,868)	24,366	-
Transferred from Lifetime ECL credit-impaired	-	-	-	-
Change in exposure	(22,545)	(19,170)	(4,985)	(46,700)
Originated during the period	38,674	229	281	39,184
Derecognised during the period	(33,234)	(6,690)	-	(39,924)
EAD as at 30 September 2020	2,223,204	125,337	66,573	2,415,114

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

4. Critical accounting judgments and key sources of estimation of uncertainty (Continued)

COVID-19 Impact on measurement of ECL (continued)

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

	AED'000
ECL allowance as at 1 January 2020	28,625
01 – Manufacturing	(176)
02 - Construction and real estate	(3,380)
03 – Education	(57)
04 – Trading	1,701
05 – Hospitals	(4,388)
06 – Transportation	(865)
07 – Others	815
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ECL allowance as at 30 September 2020	22,275
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During 2020, the Bank has initiated a program of payment relief for its impacted customers by deferring profit/principal due for a period of one month to nine months. These payment reliefs are considered as short-term liquidity to address customer cash flow issues. The relief offered to customers may indicate a SICR. However, the Bank 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.

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.

5. Classification of financial assets and liabilities

The tables below sets out the Bank's classification of each class of financial assets and liabilities:

	At fair value AED'000	Amortised cost AED'000	Total AED'000
At 30 September 2020 (unaudited)			
Financial assets			
Cash and balances with the Central Bank	-	2,172,103	2,172,103
Due from banks and other financial institutions	-	399,724	399,724
Islamic financing and investing assets, net	-	17,230,863	17,230,863
Islamic investment securities at FVTOCI	1,896,276	-	1,896,276
Other Islamic assets	775	137,004	137,779
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Total	1,897,051	19,939,694	21,836,745
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**Notes to the condensed interim financial statements
for the nine months period ended 30 September 2020 (continued)**

5. Classification of financial assets and liabilities (continued)

	At fair value AED'000	Amortised cost AED'000	Total AED'000
At 30 September 2020 (unaudited)			
Financial liabilities			
Islamic customers' deposits	-	14,476,825	14,476,825
Due to banks and other financial institutions	-	5,355,022	5,355,022
Other liabilities	-	180,203	180,203
Total	-	20,012,050	20,012,050
31 December 2019 (audited)			
Financial assets:			
Cash and balances with the Central Bank	-	2,546,097	2,546,097
Due from banks and other financial institutions	-	658,044	658,044
Islamic financing and investing assets , net	-	17,110,570	17,110,570
Islamic investments securities at FVTOCI	2,018,901	-	2,018,901
Other Islamic assets	3,150	134,569	137,719
Total	2,022,051	20,449,280	22,471,331
Financial liabilities:			
Islamic customers' deposits	-	14,922,760	14,922,760
Due to banks and other financial institutions	-	5,733,478	5,733,478
Other liabilities	-	328,610	328,610
Total	-	20,984,848	20,984,848

6. Cash and balances with the Central Bank

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Cash on hand	84,771	89,928
Balances with the Central Bank:		
Current accounts	92,193	4,075
Reserve requirements with the Central Bank	415,139	632,094
International murabahat with the Central Bank	1,580,000	1,820,000
Total	2,172,103	2,546,097

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

6. Cash and balances with the Central Bank (continued)

Cash and cash equivalents included in the condensed interim statement of cash flows are as follows:

	30 September 2020 AED'000 (unaudited)	30 September 2019 AED'000 (unaudited)
Cash and balances with the Central Bank	2,172,103	2,797,288
Due from banks and other financial institutions (original maturity less than three months)	62,040	278,503
	2,234,143	3,075,791
Less: Statutory reserve with the Central Bank	(415,139)	(656,535)
Less: International murabahat with the Central Bank (original maturity more than three months)	(840,000)	(1,380,000)
Cash and cash equivalents	979,004	1,039,256

The statutory reserve with the Central Bank is not available to finance the day-to-day operations of the Bank. However, as per notice 4310/2008, the Central Bank has allowed banks to utilize up to 100% of their AED and US\$ reserve requirement limit.

7. Islamic financing and investing assets, net

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Islamic financing assets		
Vehicles murabahat	73,216	95,548
Commodities murabahat	8,488,188	8,140,391
Total murabahat	8,561,404	8,235,939
Ijarahs	9,885,579	9,570,549
Istisna'a	2,841	25,178
Islamic credit cards	23,390	27,489
	18,473,214	17,859,155
Deferred income	(1,092,074)	(879,669)
Total Islamic financing assets	17,381,140	16,979,486
Islamic investing Assets		
Mudaraba	20,646	133,513
Wakalat	664,569	867,957
Total Islamic investing assets	685,215	1,001,470
Total Islamic financing and investing assets	18,066,355	17,980,956
Less: Impairment loss allowance (Note 17)	(835,492)	(870,386)
Total Islamic financing and investing assets, net	17,230,863	17,110,570

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

8. Islamic investment securities at FVTOCI

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Islamic investments securities		
Sukuk instruments	1,659,621	1,783,110
Equity instruments	236,655	235,791
	<u>1,896,276</u>	<u>2,018,901</u>

Fair value hierarchy

Islamic investment securities measured at FVTOCI are set out below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
30 September 2020 (unaudited)				
At FVTOCI				
Sukuk instruments	1,625,193	-	34,428	1,659,621
Equity instruments	43,020	-	193,635	236,655
Total	<u>1,668,213</u>	<u>-</u>	<u>228,063</u>	<u>1,896,276</u>
31 December 2019 (audited)				
At FVTOCI				
Sukuk instruments	1,748,682	-	34,428	1,783,110
Equity instruments	70,560	-	165,231	235,791
Total	<u>1,819,242</u>	<u>-</u>	<u>199,659</u>	<u>2,018,901</u>

There were no transfers between financial instruments classified within level 1, level 2, and level 3 of the fair value hierarchy during the current or prior period/year.

9. Investment in associate

During the period, the Bank acquired 44% of the share capital in Makaseb 3 Real Estate Investment SPV Limited.

Information about the associate and the nature of the investment is shown below:

Name	Nature of Business	Country of Incorporation	% Interest held	Measurement method
Makaseb Real Estate Investment SPV Limited	Real Estate Investments	United Arab Emirates	48%	Equity
Makaseb 3 Real Estate Investment SPV Limited	Real Estate Investments	United Arab Emirates	44%	Equity

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

9. Investment in associate (continued)

Movement in investment in associate is as follows:

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
At beginning of the period/year	74,282	-
Additions during the period/year	98,000	73,500
Share of results during the period/year	6,067	2,462
Distributions received during the period/year	(5,794)	(1,680)
	<hr/>	<hr/>
Balance at the end of the period/year	172,555	74,282
	<hr/>	<hr/>

10. Investment properties

Movement in investment properties is as follows:

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
At beginning of the period/year	783,362	658,131
Additions during the period/year	3,678	455,425
Derecognised due to disposal of investment in subsidiary (Note 23)	(421,402)	-
Disposals during the period/year*	-	(327,000)
Decrease in fair value during the period/year	-	(3,194)
	<hr/>	<hr/>
Balance at the end of the period/year	365,638	783,362
	<hr/>	<hr/>

All of the Bank's investment properties are held under freehold interest and located in the U.A.E. The fair value of the Bank's investment properties as at 30 September 2020 is AED 366 million (31 December 2019: AED 783 million). The fair value is mainly based on unobservable market inputs (i.e. Level 3).

*During the year ended 31 December 2019, the Bank sold investment properties for a consideration of AED 327 million to a related party.

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

11. Other Islamic assets

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Accrued income on Islamic financing and investing assets	92,518	92,501
Acceptances (Note 13)	21,313	67,599
Assets acquired in settlement of Islamic financing and investing assets	52,930	47,066
Accrued income on Islamic investments securities at FVTOCI	19,016	25,218
Prepaid expenses	9,269	6,307
Staff advances	11,156	14,382
Foreign currency forward contracts	775	3,150
Other	49,520	70,942
	256,497	327,165
Less: Impairment loss allowance (Note 17)	(15,089)	(28,841)
	241,408	298,324

12. Islamic customers' deposits

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Current accounts	2,726,342	2,605,119
<i>Mudarba deposits:</i>		
Savings accounts	261,357	212,607
Term deposits	54,341	64,434
	3,042,040	2,882,160
Wakala deposits	11,271,986	11,859,899
Escrow accounts	128,668	143,365
Margin accounts	34,131	37,336
	14,476,825	14,922,760

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

13. Other liabilities

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Accrued profit on Islamic customers' deposits and placements by banks	139,473	286,818
Provisions for staff salaries and benefits	20,507	21,113
Managers' cheques	25,007	27,068
Acceptances (Note 11)	21,313	67,599
Lease liability	10,684	12,312
Impairment loss allowance (Note 17)	11,207	11,682
Other	36,170	30,641
	264,361	457,233

14. Share capital

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
<i>Issued and fully paid:</i>		
2,100,000,000 (31 December 2019: 2,100,000,000) shares of AED 1 each	2,100,000	2,100,000

During the period ended 30 September 2020, AED 1.25 million (31 December 2019: AED 2.5 million) was approved as Directors' remuneration by the shareholders at the annual general meeting held on the 20th April 2020.

Cash dividends at 3.5% of the share capital amounting to AED 73.5 million were approved during the year ended 31 December 2019 for the year ended 31 December 2018.

15. General impairment reserve

In accordance with the requirements of the Central Bank of the U.A.E. the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under Stage 1 and Stage 2 as per IFRS 9 is transferred to 'General impairment reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends.

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

16. Income from Islamic financing and investing assets

	Three month period ended 30 September		Nine month period ended 30 September	
	2020 AED'000 (unaudited)	2019 AED'000 (unaudited)	2020 AED'000 (unaudited)	2019 AED'000 (unaudited)
Income from Ijarah	128,158	136,388	372,599	386,040
Income from Murabaha	76,399	113,915	265,384	314,983
Income from Mudaraba	193	2,871	1,248	17,111
Income from Wakala	4,150	(1,567)	17,278	20,745
Income from Istisna	17	310	415	1,283
	208,917	251,917	656,924	740,162

17. Impairment allowance

17.1 Allocation of impairment allowance 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
30 September 2020 (unaudited)				
Due from banks and other financial institutions	-	226	-	226
Islamic financing and investing assets	30,053	91,547	713,892	835,492
Islamic investment securities at FVTOCI	3,960	-	50,078	54,038
Other Islamic financial assets	-	1	15,088	15,089
Financial commitments and financial guarantees	3,055	-	8,152	11,207
Total	37,068	91,774	787,210	916,052
31 December 2019 (audited)				
Due from banks and other financial institutions	89	158	-	247
Islamic financing and investing assets	49,621	81,158	739,607	870,386
Islamic investment securities at FVTOCI	1,529	-	50,078	51,607
Other Islamic financial assets	106	1	28,734	28,841
Financial commitments and financial guarantees	2,235	-	9,447	11,682
Total	53,580	81,317	827,866	962,763

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

17. Impairment allowance (continued)

17.2 The movement in impairment allowance by financial asset category during the period ended 30 September 2020 is as follows:

	Opening balance AED'000	Net charge during the period AED'000	Write-off, net of recoveries AED'000	Closing balance AED'000	Net charge during the period ended 30 September 2019 AED'000
Due from banks and other financial institutions	247	(21)	-	226	(29)
Islamic financing and investing assets (Note 7)	870,386	150,535	(185,429)	835,492	153,659
Islamic investment securities at FVTOCI	51,607	2,431	-	54,038	1,312
Other Islamic financial assets (Note 11)	28,841	7,232	(20,984)	15,089	667
Financial commitments and financial guarantees (Note 13)	11,682	(475)	-	11,207	(4,678)
Total	962,763	159,702	206,413	916,052	150,931

The credit impairment provisions calculated in accordance with CBUAE requirements were in excess of ECL allowance calculated under IFRS 9 as explained in note 4.

18. 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 (unaudited)	2019 (unaudited)	2019 (unaudited)	2018 (unaudited)
Basic earnings per share				
Profit for the period (AED'000)	12,889	22,256	55,858	110,160
Directors remunerations (AED'000)	-	-	(1,250)	(2,500)
	12,889	22,256	54,608	107,660
Weighted average number of shares outstanding during the period (in thousands)	2,100,000	2,100,000	2,100,000	2,100,000
Basic earnings per share (AED)	0.006	0.011	0.026	0.051

There were no potentially dilutive shares as at 30 September 2020 and 30 September 2019.

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

19. Related parties transactions

Certain “related parties” (such as directors, key management personnel and major shareholders of the Bank and companies of which they are principal owners) are customers of the Bank in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below:

Transactions

Transactions with related parties are shown below:

	Nine month period ended					
	30 September 2020 (unaudited)			30 September 2019 (unaudited)		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositors' share of profit	83,126	1,207	84,333	70,188	1,039	71,227
Income from Islamic financing and investing assets	52,361	16,095	68,456	41,622	6,788	48,410

Balances

Balances with related parties at the reporting date are shown below:

	30 September 2020 (unaudited)			31 December 2019 (audited)		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Islamic financing and investing assets	2,070,473	497,382	2,567,855	1,965,234	282,085	2,247,319
Islamic customers' deposits	3,771,048	108,274	3,879,322	3,266,742	103,721	3,370,463

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

19. Related parties transactions (continued)

Compensation of key management personnel

Key management compensation is as shown below:

	Nine month period ended 30 September	
	2020	2019
	AED'000	AED'000
	(unaudited)	(unaudited)
Short term employment benefits	6,929	6,939
Terminal benefits	316	341
	<hr/> 7,245 <hr/>	<hr/> 7,280 <hr/>

20. Contingencies and commitments

Capital commitments

At 30 September 2020, the Bank had outstanding capital commitments of AED 48 million (31 December 2019: AED 18 million), which will be funded within the next twelve months.

Credit related commitments and contingencies

Credit related commitments include commitments to extend credit, which are designed to meet the requirements of the Bank's customers.

The Bank had the following credit related commitments and contingent liabilities:

	30 September	31 December
	2020	2019
	AED'000	AED'000
	(unaudited)	(audited)
Commitments to extend credit	382,112	661,180
Letters of credit	2,346	21,119
Letters of guarantee	307,863	357,244
	<hr/> 692,321 <hr/>	<hr/> 1,039,543 <hr/>

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

21. Segment analysis

Operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance.

For operating purposes, the Bank is organised into the following business segments:

- (i) Consumer banking – comprising personal banking where various products are offered e.g. private customer current accounts, savings accounts, deposits, credit and debit cards, personal finance, auto finance and house mortgage;
- (ii) Corporate banking - incorporating transactions with corporate bodies including government and public bodies and comprising of Islamic financing and investing assets, deposits and trade finance transactions;
- (iii) Investment banking – comprising priority banking, investment solutions and alternative investment banking, leasing of commercial & residential properties; and
- (iv) Treasury - incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the Central Bank of the UAE.

These segments are the basis on which the Bank 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.

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

21. Segment analysis (continued)

Segment results of operations

The segment information provided to the Board for the reportable segments are as follows:

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Others AED'000	Total AED'000
Nine month period ended 30 September 2020 (unaudited)						
Net income from Islamic financing and investing assets	55,542	244,292	(25,808)	20,254	-	294,280
Income from Islamic investment securities at FVTOCI	-	-	73,908	6,987	-	80,895
Share of results of associate	-	-	-	6,067	-	6,067
Impairment charges on financial assets	(22,869)	(127,146)	(2,427)	(7,260)	-	(159,702)
Fees, commissions and other income	13,747	17,705	3,932	8,951	(1,405)	42,930
Staff costs	(39,106)	(10,324)	(2,907)	(5,866)	(84,852)	(143,055)
General and administrative expenses	(25,061)	(4,751)	305	(1,420)	(14,834)	(45,761)
Depreciation of property and equipment	-	-	-	-	(19,796)	(19,796)
Operating profit/(loss) (unaudited)	(17,747)	119,776	47,003	27,713	(120,887)	55,858
Nine month period ended 30 September 2019 (unaudited)						
Net income from Islamic financing and investing assets	66,136	183,060	(1,317)	7,574	-	255,453
Income from Islamic investment securities at fair value	-	-	109,423	11,696	-	121,119
Share of results of associate	-	-	-	1,382	-	1,382
Reversal of/(impairment) charges on financial assets	8,995	(159,084)	(633)	(209)	-	(150,931)
Net fee and other income	16,358	59,636	10,108	22,898	950	109,950
Staff costs	(42,267)	(10,522)	(3,145)	(5,591)	(92,351)	(154,773)
General and administrative expenses	(21,408)	(21,869)	(897)	(1,602)	(16,662)	(61,541)
Depreciation of property and equipment	-	-	-	-	(10,499)	(10,499)
Operating profit/(loss) (unaudited)	27,814	51,221	113,539	36,148	(118,562)	110,160

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

21. Segment analysis (continued)

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Others AED'000	Total AED'000
As at 30 September 2020						
Segment assets (unaudited)	3,617,178	13,736,392	3,240,325	1,896,433	120,935	22,611,263
Segment liabilities (unaudited)	3,893,461	11,184,959	3,360,672	1,067,030	590,086	20,096,208
As at 31 December 2019						
Segment assets (audited)	3,790,053	13,848,112	3,383,815	1,990,660	613,150	23,625,790
Segment liabilities (audited)	3,799,579	13,046,535	2,179,223	1,440,053	648,081	21,113,471

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

22. Capital management

The Bank's capital management objectives and policies are consistent with those disclosed in the audited financial statements as at and for the year ended 31 December 2019.

Regulatory capital

The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The Bank's regulatory capital position at the end of reporting period under Basel III is as follows:

	30 September 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Tier 1 capital		
Share capital	2,100,000	2,100,000
Reserves	309,800	300,736
	<hr/> 2,409,800 <hr/>	<hr/> 2,400,736 <hr/>
Tier 2 capital		
General provision and fair value reserve	194,118	205,399
	<hr/> 2,603,918 <hr/>	<hr/> 2,606,135 <hr/>
Total regulatory capital		
	<hr/> 2,603,918 <hr/>	<hr/> 2,606,135 <hr/>
Risk weighted assets		
Credit risk	15,529,475	16,431,951
Market risk	345	587
Operational risk	1,092,872	1,092,872
	<hr/> 16,622,692 <hr/>	<hr/> 17,525,410 <hr/>
Total risk weighted assets	<hr/> 16,622,692 <hr/>	<hr/> 17,525,410 <hr/>
	Minimum requirement	Capital ratios 30 September 2020 (unaudited)
		Capital ratios 31 December 2019 (audited)
Capital element		
Common equity tier 1 (CET 1) ratio	7%	14.50%
Tier 1 capital ratio	8.5%	14.50%
Capital adequacy ratio	10.5%	15.66%
CET1 available for the buffer requirement	2.5%	5.16%
	<hr/> 7% <hr/>	<hr/> 14.50% <hr/>
	<hr/> 8.5% <hr/>	<hr/> 14.50% <hr/>
	<hr/> 10.5% <hr/>	<hr/> 15.66% <hr/>
	<hr/> 2.5% <hr/>	<hr/> 5.16% <hr/>

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

23. Special purpose entities

On 5 December 2019, the Bank acquired 100% shares in a Special Purpose Entity, Makaseb 2 Real Estate Investments SPV Limited, a Company incorporated in U.A.E and engaged in real estate investments. During the period ended 30 September 2020, the Bank has disposed of 100% shares in Makaseb 2 Real Estate Investments SPV Limited to an associate, Makaseb 3 Real Estate Investment SPV Limited. All incurred costs during the period were born by the Bank.

The Bank acquired 44% shares in Makaseb 3 Real Estate Investment SPV Limited during the period and accounted for it as an investment in associate.

24. Comparative Information

Certain comparative amounts in the notes to the condensed interim financial statements have been adjusted to confirm with the current period's presentation.

25. Non-cash transactions

	30 September 2020 AED'000 (Unaudited)	30 September 2019 AED'000 (Unaudited)
Acquisition of investment in associate	(98,000)	-
Sale of investment properties to a related party	296,505	-
Islamic financing to associate	(198,505)	-
	<u><u> </u></u>	<u><u> </u></u>

26. Approval of condensed interim financial statements

The condensed interim financial statements were approved by the Board of Directors and authorized for issue on 4 November 2020.