Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
30 June 2020

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

For the six-month period ended 30 June 2020

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KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard, Downtown Dubai, UAE
Tel. +971 (4) 403 0300, Fax +971 (4) 330 1515

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

The Shareholders
Commercial Bank of Dubai PSC

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Commercial Bank of Dubai PSC. (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the condensed consolidated interim statement of financial position as at 30 June 2020;
- the condensed consolidated interim statement of profit or loss for the three-month and six-month periods ended 30 June 2020;
- the condensed consolidated interim statement of other comprehensive income for the three-month and six-month periods ended 30 June 2020;
- the condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2020;
- the condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2020; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated 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 30 June 2020 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Emilio Pera
Registration Number: 1146
Dubai, United Arab Emirates
Date: 26 July 2020

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of financial position

As at 30 June 2020

	Notes	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
ASSETS			
Cash and balances with Central Bank	*7*	**12,265,625**	12,592,641
Due from banks, net	*8*	**3,368,078**	2,427,735
Loans and advances and Islamic financing, net	*9*	**63,419,541**	60,180,810
Investment securities	*10*	**6,483,980**	5,613,287
Investment in an associate		**78,044**	85,127
Investment properties, net		**189,061**	198,896
Property and equipment		**280,590**	273,583
Bankers acceptances		**5,395,600**	5,346,819
Other assets, net	*11*	**2,201,403**	1,349,993
TOTAL ASSETS		**93,681,922**	88,068,891
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**7,522,202**	4,166,589
Customer deposits and Islamic customer deposits	*12*	**65,319,278**	63,334,333
Notes and medium term borrowings	*13*	**3,232,281**	3,231,072
Due for trade acceptances		**5,395,600**	5,346,819
Other liabilities	*14*	**2,027,054**	1,773,508
TOTAL LIABILITIES		**83,496,415**	77,852,321
EQUITY			
Share capital	*15*	**2,802,734**	2,802,734
Legal and statutory reserve		**1,401,367**	1,401,367
General reserve		**1,328,025**	1,328,025
Capital reserve		**38,638**	38,638
Fair value reserve		**82,836**	48,454
Retained earnings		**4,531,907**	4,597,352
TOTAL EQUITY		**10,185,507**	10,216,570
TOTAL LIABILITIES AND EQUITY		**93,681,922**	88,068,891

To the best of our knowledge, the condensed consolidated interim financial information present fairly in all material respects the financial condition, results of operation and cash flows of the Group as of, and for, the periods presented therein.

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 26 July 2020.

The attached notes from 1 to 23 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

H.E. Humaid Al Qutami
Chairman

Dr. Bernd van Linder
Chief Executive Officer

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of profit or loss

For the three-month and six-month period ended 30 June 2020

	Notes	Six-month period ended		Three-month period ended	
		30 June 2020	30 June 2019	**30 June 2020**	30 June 2019
		AED'000	AED'000	**AED'000**	AED'000
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest income and income from Islamic financing		**1,503,248**	1,591,139	**727,035**	808,138
Interest expense and distributions to Islamic depositors		**(573,818)**	(590,880)	**(282,293)**	(300,837)
Net interest income and net income from Islamic financing		**929,430**	1,000,259	**444,742**	507,301
Net fees and commission income		**332,634**	368,127	**131,241**	176,301
Net gains from foreign exchange and derivatives		**109,658**	92,273	**51,843**	40,132
Net gains from investments at fair value through profit or loss		**1,093**	718	**121**	274
Net gains from sale of debt investments at fair value through other comprehensive income		**8,644**	10,086	**5,741**	5,002
Share of (loss) / profit of an associate		**(3,750)**	2,518	**525**	3,131
Dividend income		**2,786**	3,488	**-**	429
Other income		**31,345**	32,834	**21,110**	3,668
Total operating income		**1,411,840**	1,510,303	**655,323**	736,238
Reversal /(impairment) allowance on due from banks		**1,437**	(2,795)	**(243)**	1,852
Impairment allowance on loans and advances and Islamic financing		**(493,230)**	(388,431)	**(238,779)**	(166,027)
Recoveries/ (losses) of loans and advances and Islamic financing		**8,943**	15,737	**(10,718)**	7,371
(Impairment) /reversal of impairment allowance on other assets		**(14,198)**	-	**(7,583)**	5,176
Impairment allowance on investment properties		**-**	(3,322)	**-**	-
Reversal/ (impairment) allowance on investment securities		**1,960**	(1,643)	**2,126**	(558)
Total net income		**916,752**	1,129,849	**400,126**	584,052
Staff and other expenses		**(374,124)**	(394,624)	**(190,823)**	(205,826)
Depreciation and amortisation		**(12,197)**	(34,075)	**5,805**	(17,130)
Total operating expenses		**(386,321)**	(428,699)	**(185,018)**	(222,956)
Net profit for the period		**530,431**	701,150	**215,108**	361,096
Basic and diluted earnings per share	*16*	**AED 0.19**	AED 0.25	**AED 0.08**	AED 0.13

The attached notes from 1 to 23 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of other comprehensive income

For the three-month and six-month period ended 30 June 2020

	Six-month period ended		Three-month period ended	
	30 June 2020	30 June 2019	**30 June 2020**	30 June 2019
	AED'000	AED'000	**AED'000**	AED'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Net profit for the period	**530,431**	701,150	**215,108**	361,096
Items that will not be reclassified to profit or loss:				
Realised gains on sale of equity investments held at FVOCI	**-**	3,172	**-**	1,518
Revaluation gain / (loss) of equity investments held at FVOCI	**10,541**	(15,490)	**17,077**	(3,794)
Items that may be subsequently reclassified to profit or loss:				
Changes in fair value of effective portion of cash flow hedge	**1,218**	1,592	**(1,093)**	(208)
Changes in fair value reserve of an associate	**(362)**	226	**(185)**	51
	856	1,818	**(1,278)**	(157)
Changes in investments held at FVOCI:				
Realised gain on sale of debt investments	**(8,644)**	(10,086)	**(5,741)**	(5,002)
Revaluation gain on debt investments	**31,629**	193,113	**266,036**	89,697
Net change in investments held at FVOCI	**22,985**	183,027	**260,295**	84,695
Other comprehensive income for the period	**34,382**	172,527	**276,094**	82,262
Total comprehensive income for the period	**564,813**	873,677	**491,202**	443,358

The attached notes from 1 to 23 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of changes in equity

For the six-month period ended 30 June 2020

	Share capital AED'000	Legal and statutory reserve AED'000	General reserve AED'000	Capital reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2019	2,802,734	1,401,367	1,328,025	38,638	(137,060)	3,785,022	9,218,726
Transactions with shareholders, recorded directly in equity							
Cash dividend for 2018 (20.7%)	-	-	-	-	-	(580,166)	(580,166)
Directors' remuneration for 2018	-	-	-	-	-	(11,000)	(11,000)
Share of Director's remuneration of an associate	-	-	-	-	-	(424)	(424)
Other comprehensive income							
Net profit for the period	-	-	-	-	-	701,150	701,150
Gain on sale of equity investments at fair value through other comprehensive income	-	-	-	-	(3,172)	3,172	-
Other comprehensive income for the period	-	-	-	-	172,527	-	172,527
Total other comprehensive income for the period	-	-	-	-	169,355	704,322	873,677
At 30 June 2019 (unaudited)	2,802,734	1,401,367	1,328,025	38,638	32,295	3,897,754	9,500,813
At 1 January 2020	**2,802,734**	**1,401,367**	**1,328,025**	**38,638**	**48,454**	**4,597,352**	**10,216,570**
Transactions with shareholders, recorded directly in equity							
Cash dividend for 2019 (20.7%)	**-**	**-**	**-**	**-**	**-**	**(580,166)**	**(580,166)**
Directors' remuneration for 2019	**-**	**-**	**-**	**-**	**-**	**(15,400)**	**(15,400)**
Share of Director's remuneration of an associate	-	-	-	-	-	**(310)**	**(310)**
Other comprehensive income							
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**530,431**	**530,431**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**34,382**	**-**	**34,382**
Total other comprehensive income for the period	**-**	**-**	**-**	**-**	**34,382**	**530,431**	**564,813**
At 30 June 2020 (unaudited)	**2,802,734**	**1,401,367**	**1,328,025**	**38,638**	**82,836**	**4,531,907**	**10,185,507**

The attached notes from 1 to 23 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of cash flows

For the six-month period ended 30 June 2020

	Note	**30 June 2020 AED'000 (Unaudited)**	30 June 2019 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Net profit for the period		**530,431**	701,150
Adjustments for:			
Depreciation and amortisation		**12,197**	34,075
Profit on disposal of property and equipment		**(15,670)**	(19,462)
Amortisation of premium / discount on investments		**16,400**	19,469
Dividend income		**(2,786)**	(3,488)
Unrealized loss on investments at fair value through profit or loss		**176**	-
Loss on foreign exchange translation		**431**	754
Realised gains on sale of investments		**(9,358)**	(10,611)
Net unrealised loss / (gain) on derivatives		**1,402**	(31,932)
Share of loss / (profit) of an associate		**3,750**	(2,518)
Impairment allowance on loans and advances and Islamic financing		**493,230**	388,431
Impairment allowance on other assets		**14,198**	-
Impairment allowance on investment properties		**-**	3,322
(Reversal) / impairment allowance on investment securities		**(1,960)**	1,643
(Reversal) / impairment allowance on due from banks		**(1,437)**	2,795
Amortisation of transaction cost on notes and medium term borrowings		**1,209**	673
		1,042,213	1,084,301
Decrease / (increase) in statutory reserve with the Central Bank		**1,401,349**	(516,003)
Decrease / (increase) in negotiable Central Bank certificate of deposits with original maturity of more than three months		**1,000,000**	(1,900,000)
Decrease in due from banks with original maturity of more than three months		**-**	1,176
Increase in loans and advances and Islamic financing		**(3,731,961)**	(4,284,424)
Increase in other assets		**(401,014)**	(160,762)
Increase in customer deposits and Islamic customer deposits		**1,984,945**	2,099,295
(Decrease) / increase in other liabilities		**(215,479)**	342,582
Increase in due to banks with original maturity of more than three months		**2,776,490**	1,186,401
Directors' remuneration paid		**(15,400)**	(11,000)
Net cash flow from / (used in) operating activities		**3,841,143**	(2,158,434)
INVESTING ACTIVITIES			
Purchase of investments		**(2,972,355)**	(2,456,361)
Purchase of property and equipment		**(22,414)**	(8,834)
Dividend income		**2,786**	3,488
Proceeds from sale of investments		**2,133,746**	3,093,421
Dividend from an associate		**2,661**	3,992
Proceeds from sale of property and equipment		**28,715**	48,800
Net cash flow (used in) / from investing activities		**(826,861)**	684,506
FINANCING ACTIVITIES			
Dividend paid		**(580,166)**	(580,166)
Net cash flow used in financing activities		**(580,166)**	(580,166)
Net increase / (decrease) in cash and cash equivalents		**2,434,116**	(2,054,094)
Cash and cash equivalents at 1 January		**7,340,365**	3,315,334
Cash and cash equivalents at end of the period	*17*	**9,774,481**	1,261,240

The attached notes from 1 to 23 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on pages 1 to 2.

1 LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 2 of 2015. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial banking. The registered address of the Bank is CBD Head Office, Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

The condensed consolidated interim financial statements of the Group for the six month period ended 30 June 2020 comprise the results of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Details about subsidiaries and an associate:

a) CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is providing brokerage facilities for local shares and bonds.
b) CBD Employment Services One Person Company LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Bank holds 100% interest. Its principal activity is the supply of manpower services.
c) Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 2 of 2015 in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is self-owned property management services as well as buying and selling of real estate.
d) CBD (Cayman) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established for the issuance of debt securities.
e) CBD (Cayman II) Limited, which is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to transact and negotiate derivative agreements.
f) VS 1897 (Cayman) Limited which is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to manage investment acquired in the settlement of debt.
g) National General Insurance Co. (PSC) is an associate of the Bank and is listed on the Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds a 17.8% interest in the associate. The management believes that it has significant influence on the associate by virtue of having representation on the Board of Directors of the associate.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* . These condensed consolidated interim financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2019.

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2 Functional and presentation currency

The condensed consolidated interim financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.3 Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Bank, its wholly owned subsidiaries (together referred to as "the Group"), which it controls and the Group's interest in an associate, as at 30 June 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial Assets

3.1.1 Classification

The Group classifies financial assets on initial recognition in the following categories:

(i) Amortised cost;
(ii) Fair value through other comprehensive income (FVOCI); and
(iii) Fair value through profit or loss (FVPL).

o ***Business model assessment***

The Group makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the entity considers all relevant information available at the date of the assessment. The information considered includes:

- The stated policies and objectives for the business and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets.
- How the performance of the portfolio and the financial asset held within the portfolio is evaluated and reported to the management.
- The risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed.
- How the managers of the business are compensated.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

o ***Assessment whether contractual cash flows is solely payments of principal and interest***

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument.

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

o ***Assessment whether contractual cash flows is solely payments of principal and interest (continued)***

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash from specified assets;
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets

IFRS 9 requires the Group to record an allowance for ECLs that are not measured at FVPL on the following financial instruments:

- loans and advances, Islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the life time expected credit losses (LTECLs).

Stage 3: Loans considered are credit-impaired. The group records an allowance for the LTECLs.

The key inputs into the measurement of ECL are the term structures of the following variables:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the expected exposure in the event of a default and the potential changes to the current amount allowed under the contract including amortisation.
- LGD – The loss given default is an estimate of the loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

(i) Assessment of significant increase in credit risk

Assessment of significant increase in credit risk is performed on a monthly basis for each individual exposure. Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating. In addition to quantitative criteria the Group has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. The criteria may be rebutted on a case by case basis, depending upon individual circumstances of customers.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(ii) Improvement in credit risk profile

The Group has defined below criteria to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from stage 3 to stage 2 and from stage 2 to stage 1 after meeting the curing period of at least 12 months.
- Restructured loans are considered and evaluated for Stage 2 at the time of restructure. Such cases will be upgraded if repayments of 3 installments have been made or 12 months curing period is met, if the repayments frequency are longer than monthly or quarterly installments.

(iii) Default definition

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

The Group has performed a historical default rate analysis to identify homogeneous segments and further estimated ECL parameters (i.e. PD, LGD and EAD) at similar granularities. To perform a historical default rate analysis, the Group has adopted two separate definitions of default for the non-retail and the retail portfolio.

o ***Non-retail portfolio***

The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Group. These loans are appraised at least annually based on the financial information, other qualitative information and account conduct of the customer.

A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days on any of its credit obligation.

o ***Retail portfolio***

The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days.

The default rate analysis as well as the improvement in credit risk profile for the retail portfolio is performed at the account level based on the days past due criteria.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(iv) Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group relies on a broad range of forward looking information as economic inputs such as:

- GDP growth rates;
- UAE Central Bank base rate;
- Oil price;
- Consumer price index;
- House prices;
- Unemployment rates; etc.

(v) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is material, the Group deems the arrangement is substantially different leading to derecognition.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(v) Modification of financial assets (continued)

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower’s improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the consolidated statement of profit or loss. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

4 USE OF ESTIMATES AND JUDGMENTS

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets and 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 and the estimated useful lives of the Group's fixed assets, which are 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 addition to the management of credit risk described in Note 35 b. (i) to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019, the Bank has taken the following measures in response to the COVID-19 outbreak:

The Bank's Corporate Credit Risk department has identified the most vulnerable sectors to this stressed situation, and reviews are being conducted on a more frequent basis:

- Tourism and Hospitality; Aviation and Airlines; Retail and automotive;
- Oil and gas; Trading; Logistics;
- Manufacturing; Real Estate; Contracting.

The Group continues to apply robust underwriting standards to companies in the above 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 will continue to demonstrate sound prudence and vigor in underwriting across the retail sector whilst supporting customers and businesses across the UAE.

4 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)
Impact of COVID-19 (continued)

(i) Credit risk management (continued)

On a case by case basis in the Institutional, Corporate and Retail Segments, the Group has approved payment holidays to certain customers, ranging from 3 to 6 months deferrals. The Bank has extensively reviewed the past account conduct and payment history of the borrowers requesting for deferral, prior to approval. Significant judgment is applied when assessing whether the cash flow and liquidity issues faced by the customer are temporary or long term in nature.

The Bank conducts frequent reviews of the Loan to Value ("LTV") ratios on the securities held against facilities, specifically for securities which are illiquid in nature.

(ii) Liquidity risk management

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and continue to be evaluated, as Governments around the world reel in to provide relief and mitigate the adverse effects of the crisis. The key risk factors include:

- Sustained periods of low oil prices combined with drastically lower economic output will lead to constraints on the banking sector's funding capabilities and liquidity management;
- Potential rise in the cost of funds due to reduced deposit inflows from the general public and government entities; and
- Weakened credit outlook may have a negative impact on lending, which will further contribute to a slowdown in economic growth.

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;
- Granted an extension of the capital buffer relief to 31 December 2021 for banks participating in the TESS Programme;
- 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.

The Group's management of liquidity risk is disclosed in note 35 d) 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 continues to evaluate the liquidity and funding position and has taken into consideration the relief provided by the Central Bank. As of 30 June 2020, the Bank has joined the Central Bank's TESS Programme described above and utilised the zero cost funds available to the bank. The Bank will continue to monitor the liquidity position and the risks associated with the evolving COVID-19 crisis.

(iii) Use of estimates and judgements:

The spread of COVID-19 increased rapidly during the months following March 2020, and as the number of cases spiked governments around the world deployed a multitude of measures to combat the virus and protect their economies. The Bank is constantly monitoring the current situation as it unfolds, noting that at this stage there is variable economic data available to accurately evaluate the impact of the outbreak on the UAE economy.

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 and stressing the economic inputs to the IFRS 9 model. Going forward, the Bank will continue to monitor and evaluate the impact of the outbreak, and will consider adjusting its ECL model in subsequent quarters if required.

4 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(iii) Use of estimates and judgements: (continued)

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro economic scenarios and weightages have on the Bank's Expected Credit Losses (ECLs), 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 exercises oversight by conducting regular reviews of the portfolio. The committee closely monitors the macro economic inputs applied to the IFRS 9 model at the bank and will recommend changes required over the next quarter(s) 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.

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 the ECL estimates as the situation is still evolving, it is expected to have a significant 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 it's ECL models. The probability of the adverse scenario was increased from 10% to 25% and the probability of the favourable scenario was reduced from 10% to 0%. The probability assigned to the base case scenario accordingly decreased from 80% to 75%. The impact of changing these scenario probabilities was an increase to the impairment loss allowance by AED 114 million. If the adverse scenario probability was further increased by 10%, impairment loss allowance would increase by AED 80 million. An assessment was performed, based on the relevant information gathered by the Bank, on the impact of COVID-19 on the macro economic inputs to the IFRS 9 model. Based on this assessment, an overlay of charge of AED 160 million has been added to the impairment loss allowance during the quarter. As the situation is still evolving, the management continues to track the changes in the macro economic environment closely.
During the quarter, the Bank has recalibrated its models using historic data for off balance sheet exposures.

(iv) Fair value measurement of financial instruments

The Bank's existing policy on fair value measurement of financial instruments is disclosed in note 3.1 (b) 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

The Bank's existing policy on the recognition and measurement of investment properties is disclosed in note 3.7 to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019.

As the real estate market becomes sluggish, significant unobservable adjustments may be required to adjust the fair values of the properties held, in order to reflect the current circumstances. A few landlords in the commercial sector have been working with tenants to provide rent reliefs in the form of delayed payments or extended leases. However, this is in early stages and there is limited information available on the 2020 outlook for the real estate market and how the situation will progress in light of COVID-19.

The Bank has not identified any significant impact to the fair values of investment properties for the first half 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.

(vi) Recent regulatory updates:

On 15th March 2020, the CBUAE launched the Targeted Economic Support Scheme (TESS) to address and mitigate the adverse systematic economic impacts of COVID-19 on the UAE banking sector. The objectives of the program were to:

-Facilitate the provision of temporary relief for the payments of principal and / or interest / profit on outstanding loans for all affected private sector corporates, SMEs and individuals, excluding loans extended to governments, government related entities ("GREs") and non-residents; and
- Facilitate additional lending capacity of banks, through the reliefs on existing capital buffers.

4 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(vi) Recent regulatory updates: (continued)

The constituents of the TESS program are detailed below:

a) Zero cost facility:

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 interest 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.

Out of CBUAE's total funding program of AED 50 billion, an amount of AED 2.35 billion has been earmarked for the Bank. The Bank has utilized approximately AED 2.30 billion of funding facilities as at the reporting date. The benefit has been passed onto customers in the form of payment reliefs; AED 2.26 billion (98%) to the corporate segment and AED 0.04 billion (2%) to the retail segment.

Fixed and floating rate securities held at fair value through other comprehensive income securities amounting to AED 2.7 billion are pledged under repurchase agreements with Central Bank U.A.E under the Targeted Economic Support Scheme (TESS).

The ZCFs from CBUAE constitute a Government Grant, as per International Accounting Standard (IAS) 20, as they reflect a transfer of resources to the Bank by a government entity in return for compliance with certain future conditions related to the entity's operating activities, i.e. funding granted under the TESS is linked with the Bank's payment deferral schemes offered to customers.

The ZCFs are initially recorded at their fair values in accordance with the requirements of IFRS 13 and are subsequently measured in accordance with the requirements of IFRS 9.

b) Other reliefs:

Key measures taken by the CBUAE include:

- Allowed Banks to reduce the reserve requirements for demand deposits from 14% to 7%;
- Allowed banks participating in the TESS program to maintain a minimum LCR ratio of 70% and a minimum ELAR ratio of 7%;
- Postponed the implementation of certain Basel III capital standards to March 2021; and
- 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.

(vii) Concentration analysis:

Please refer to note 9 to the condensed consolidated interim financial information, which discloses the sector wise categorization of loans and advances as at 30 June 2020.

Changes in useful lives of fixed assets:

International accounting standard 16 - Property, Plant and Equipment requires that the useful life of assets should be reviewed at least annually, and if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate. Accordingly, the useful lives of the below fixed asset categories have been reviewed as detailed below.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 to 60 years
Leasehold improvements	5 to 10 years
Building renovations	7 years
Furniture and fixtures	7 years
Computer equipment	3 to 10 years
Computer software	7 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and prospectively adjusted if appropriate. Changes in the expected useful life of assets are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

5 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

Relevant new and revised IFRS applied with no material effect on the condensed consolidated interim financial statements

The following new and revised IFRS have been adopted in these condensed consolidated interim financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

		Effective for annual periods beginning on or after
(a)	Definition of a Business – Amendments to IFRS 3	1 January 2020
(b)	Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
(c)	Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
(d)	The Conceptual Framework for Financial Reporting	1 January 2020

6 RISK GOVERNANCE AND FINANCIAL RISK MANAGEMENT

The Group’s Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in the Group's audited consolidated financial statements as at and for the year ended 31 December 2019.

7 CASH AND BALANCES WITH CENTRAL BANK

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Cash on hand	**676,080**	430,163
Balances with Central Bank U.A.E		
- Clearing account balances	**3,376,931**	3,248,515
- Statutory reserves	**2,312,614**	3,713,963
- Negotiable certificates of deposit	**5,900,000**	5,200,000
	12,265,625	12,592,641

Statutory reserves are not available for use in the Group’s day to day operations and cannot be withdrawn without the approval of the Central Bank. The level of reserves required changes periodically in accordance with the directives of the Central Bank.

Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, these are low credit risk and there are no expected credit losses and hence no provision has been recognised.

8 DUE FROM BANKS, NET

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Current and demand deposits	**1,430,654**	1,459,479
Overnight, call and short notice	**1,579,099**	611,368
Loans to banks	**360,021**	360,021
Gross due from banks	**3,369,774**	2,430,868
Allowances for impairment losses	**(1,696)**	(3,133)
Net due from banks	**3,368,078**	2,427,735
Within the U.A.E.	**457,287**	178,499
Outside the U.A.E.	**2,910,791**	2,249,236
	3,368,078	2,427,735

Due from banks is classified under stage 1 as per IFRS 9. The expected credit loss as at 30 June 2020 is AED 1,696 thousand (31 December 2019: AED 3,133 thousand).

9 LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

The composition of the loans and advances and Islamic financing portfolio is as follows:

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Loans and advances		
Overdrafts	**6,322,603**	7,018,523
Loans	**43,689,356**	40,327,233
Advances against letters of credit and trust receipts	**2,115,860**	3,219,631
Bills discounted	**2,553,226**	2,089,718
Gross loans and advances	**54,681,045**	52,655,105
Islamic financing		
Murabaha and Tawaruq	**4,974,549**	4,503,190
Ijara	**6,968,166**	6,792,880
Others	**134,644**	88,086
Gross Islamic financing	**12,077,359**	11,384,156
Gross loans and advances and Islamic financing	**66,758,404**	64,039,261
Allowances for impairment losses	**(3,338,863)**	(3,858,451)
Net loans and advances and Islamic financing	**63,419,541**	60,180,810

An analysis of IFRS 9 stage distribution of the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
At 30 June 2020 (Unaudited)				
Gross loans and advances and Islamic financing	**55,300,797**	**6,314,093**	**5,143,514**	**66,758,404**
Allowances for impairment losses	**(569,045)**	**(529,664)**	**(2,240,154)**	**(3,338,863)**
Net loans and advances and Islamic financing	**54,731,752**	**5,784,429**	**2,903,360**	**63,419,541**
At 31 December 2019 (Audited)				
Gross loans and advances and Islamic financing	52,348,762	7,198,430	4,492,069	64,039,261
Allowances for impairment losses	(517,614)	(609,152)	(2,731,685)	(3,858,451)
Net loans and advances and Islamic financing	51,831,148	6,589,278	1,760,384	60,180,810

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Concentration by sector:		
Manufacturing	**2,782,428**	2,432,279
Construction	**4,777,814**	4,383,388
Real estate	**23,418,718**	22,694,778
Trade	**6,766,639**	5,740,869
Transportation and storage	**1,955,779**	951,085
Services	**6,079,715**	5,714,626
Hospitality	**2,888,311**	2,574,068
Financial and insurance activities	**6,558,678**	8,184,858
Government entities	**351,570**	273,616
Personal - mortgage	**3,340,808**	3,307,884
Personal - schematic	**4,412,885**	4,690,832
Individual loans for business	**1,516,711**	1,759,653
Others	**1,908,348**	1,331,325
Gross loans and advances and Islamic financing	**66,758,404**	64,039,261
Allowances for impairment losses	**(3,338,863)**	(3,858,451)
Net loans and advances and Islamic financing	**63,419,541**	60,180,810

9 LOANS AND ADVANCES AND ISLAMIC FINANCING, NET (CONTINUED)

An analysis of changes in the ECL is as follows:

	30 June 2020 AED'000 (Unaudited)	30 June 2019 AED'000 (Unaudited)
ECL allowance at the beginning of the period	**3,858,451**	3,112,993
Net impairment charge	**493,229**	388,431
Interest not recognised	**231,057**	137,234
Recoveries	**(59,414)**	(22,581)
Amounts written off	**(1,184,460)**	(171,572)
ECL allowance at the end of the period	**3,338,863**	3,444,505

Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	**1,080,696**	1,006,311
Less: Stage 1 and Stage 2 provisions under IFRS 9	**1,098,710**	1,126,766
General provision transferred to the impairment reserve*	**-**	-
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**2,003,591**	2,515,321
Less: Stage 3 provisions under IFRS 9	**2,240,154**	2,731,685
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**-**	-

* In case provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing is AED 102.8 million (31 December 2019: AED 148.6 million). Net positive fair value of the hedged component is AED 4.4 million (31 December 2019: AED 2.9 million).

10 INVESTMENT SECURITIES

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
30 June 2020 (Unaudited)				
Held at fair value through profit or loss				
Fixed rate government securities	**24,906**	**-**	**-**	**24,906**
Unquoted equity instruments	**-**	**-**	**257,616**	**257,616**
Held at fair value through other comprehensive income				
Quoted equity instruments	**59,327**	**-**	**-**	**59,327**
Unquoted equity instruments and fund	**29,780**	**-**	**18**	**29,798**
Fixed rate securities				
- Government	**1,734,924**	**1,010,934**	**152,612**	**2,898,470**
- Others	**1,407,703**	**417,253**	**964,840**	**2,789,796**
Floating rate non-government securities	**169,625**	**-**	**254,442**	**424,067**
	3,426,265	**1,428,187**	**1,629,528**	**6,483,980**

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
31 December 2019 (Audited)				
Held at fair value through profit or loss				
Unquoted equity instruments	-	-	253,861	253,861
Held at fair value through other comprehensive income				
Quoted equity instruments	48,786	-	-	48,786
Unquoted equity instruments and fund	-	-	169	169
Fixed rate securities				
- Government	1,702,870	650,064	243,674	2,596,608
- Others	1,157,994	377,553	568,723	2,104,270
Floating rate non-government securities	330,560	-	279,033	609,593
	3,240,210	1,027,617	1,345,460	5,613,287

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 2,681.0 million, pledged under repurchase agreements with Central Bank U.A.E under Targeted Economic Support Scheme (TESS) (note 4-(vi)).

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 1,445.6 million (31 December 2019: AED 1,428.4 million), pledged under repurchase agreements with banks (medium term borrowings) (note 13.2).

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 193.5 million (31 December 2019: AED Nil), pledged under repurchase agreements with banks.

11 OTHER ASSETS, NET

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Interest receivable	**450,067**	396,149
Accounts receivable and prepayments	**305,982**	116,991
Positive mark to market value of derivatives	**949,623**	485,029
Properties acquired in settlement of debt	**495,731**	351,824
	2,201,403	1,349,993

12 CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Customer deposits		
Current and demand accounts	**19,946,274**	18,139,152
Savings accounts	**3,562,791**	2,749,921
Time deposits	**29,366,866**	27,967,596
	52,875,931	48,856,669
Islamic customer deposits		
Current and demand accounts	**3,385,574**	3,495,503
Mudaraba savings accounts	**606,944**	583,368
Investment and Wakala deposits	**8,450,829**	10,398,793
	12,443,347	14,477,664
Total customer deposits and Islamic customer deposits	**65,319,278**	63,334,333

13 NOTES AND MEDIUM TERM BORROWINGS

		31 December 2019 AED'000 (Audited)	**Cash flow changes AED'000**	**Non cash flow changes AED '000**	**30 June 2020 AED'000 (Unaudited)**
Syndicated loan	13.1	619,912	**-**	**430**	**620,342**
Repurchase agreements - I	13.2	551,442	**-**	**-**	**551,442**
Repurchase agreements - II	13.2	591,799	**-**	**-**	**591,799**
Euro medium term notes	13.3	1,467,919	**-**	**779**	**1,468,698**
Total		3,231,072	**-**	**1,209**	**3,232,281**

		31 December 2018 AED'000 (Audited)	Cash flow changes AED'000	Non cash flow changes AED'000	31 December 2019 AED'000 (Audited)
Syndicated loan	13.1	-	619,591	321	619,912
Repurchase agreements - I	13.2	551,442	-	-	551,442
Repurchase agreements - II	13.2	591,799	-	-	591,799
Euro medium term notes	13.3	1,466,703	-	1,216	1,467,919
Total		2,609,944	619,591	1,537	3,231,072

13.1 *Syndicated loan*

In August 2019, the Group entered into a club deal of USD 170 million (AED 624.4 million) for a term of 5 years with an option to roll over on a semi-annual basis maturing in August 2024.

13 NOTES AND MEDIUM TERM BORROWINGS (CONTINUED)

13.2 *Repurchase agreements*

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million (AED 551.4 million) with arrangements to repurchase them at a fixed future date in July 2017. In June 2016, the arrangement of repurchase has been extended for additional five years until July 2022.

In June 2016, the Group entered into additional Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 161.1 million (AED 591.8 million) with arrangements to repurchase them at a fixed future date in June 2021.

As at 30 June 2020 the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 1,445.6 million (USD 393.6 million) (31 December 2019: AED 1,428.4 million (USD 388.8 million) (note 10).

13.3 *Euro medium term notes*

In November 2015, CBD issued USD 400 million (AED 1,469.2 million) of conventional bonds. These notes were priced at 4 per cent fixed rate and will mature on 17 November 2020.

14 OTHER LIABILITIES

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Interest payable	**389,281**	459,691
Employees' terminal benefits	**50,335**	50,826
Accounts payable	**364,284**	320,323
Accrued expenses	**93,680**	137,202
Manager cheques	**188,641**	325,881
Unearned fee income and deferred credits	**64,580**	72,357
Negative mark to market value of derivatives	**876,253**	407,228
	2,027,054	1,773,508

15 SHARE CAPITAL

The fully paid up and authorised ordinary share capital as at 30 June 2020 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2019: 2,802,733,968 shares of AED 1 each). There was no movement in authorised ordinary share capital during the period.

In the Annual General Assembly meeting held on 11 March 2020 the shareholders approved the opening of the Bank's capital to non-UAE Nationals ownership up to 40%, subject to obtaining the necessary approval of the regulatory authorities. On 14 June 2020, all regulatory formalities were completed and then onwards, foreigners were allowed to trade the Bank's shares.

16 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit AED 530,431 thousand (30 June 2019 AED 701,150 thousand) divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (30 June 2019: 2,802,733,968).

Diluted earnings per share as of 30 June 2020 and 30 June 2019 are equivalent to basic earnings per share as no new shares have been issued that would impact earnings per share when executed.

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the condensed consolidated interim statement of cash flows comprise the following condensed consolidated interim statement of financial position amounts:

	30 June 2020 AED'000 (Unaudited)	30 June 2019 AED'000 (Unaudited)
Cash on hand	**676,080**	395,993
Balances with the Central Bank U.A.E.	**3,376,931**	899,600
Negotiable certificates of deposit with the Central Bank U.A.E. with original maturity less than three months	**4,500,000**	400,000
Due from banks with original maturity of less than three months	**3,009,753**	1,229,916
	11,562,764	2,925,509
Due to banks with original maturity of less than three months	**(1,788,283)**	(1,664,269)
	9,774,481	1,261,240

18 CONTINGENT LIABILITIES AND UNDRAWN COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit and guarantees which are designed to meet the requirements of the Group's customers toward third parties. Undrawn commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Contingent liabilities:		
Letters of credit	**2,164,943**	2,226,939
Letters of guarantee	**12,146,786**	12,255,363
Total contingent liabilities	**14,311,729**	14,482,302
Undrawn commitments to extend credit	**11,602,441**	14,092,002
Total contingent liabilities and undrawn commitments	**25,914,170**	28,574,304

In the normal course of business, certain litigations were filed by or against the Bank. However based on management assessment none of litigations have material impact on Bank's financial results.

19 SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance. During the first half of the year, there has been a significant change to the organization structure and the portfolio allocation to the new business segments defined. The segment that was earlier called "Corporate banking" is now called "Institutional banking"; the previous "Commercial" segment is now called "Corporate banking". The prior comparative priod figures have been accordingly reclassified to conform to the current period presentation.

Business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs.

Business segments

Institutional banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to institutional clients (including Government related entities).
Corporate banking	Includes loans, working capital financing, trade finance and deposits products to corporate (mid-sized and small) clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to small business and retail clients.
Trading & Other	Undertakes balance sheet management deals and manages the Group's proprietary investment portfolio. It also has derivatives for trading and risk management purposes.

Interest is charged or credited to business segments and branches to match funding at transfer pricing rates which approximate the cost of funds.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

	Institutional banking AED'000	Corporate banking AED'000	Personal banking AED'000	Trading & Other AED'000	Total AED'000
30 June 2020 (Unaudited)					
Assets	**35,762,025**	**27,179,956**	**7,363,502**	**23,376,439**	**93,681,922**
Liabilities	**38,522,103**	**12,740,101**	**20,448,829**	**11,785,382**	**83,496,415**
31 December 2019 (Unaudited)					
Assets	33,545,565	25,288,803	7,767,121	21,467,402	88,068,891
Liabilities	40,262,366	10,906,139	18,740,953	7,942,863	77,852,321

19 SEGMENTAL REPORTING (CONTINUED)

	Institutional banking AED'000	Corporate banking AED'000	Personal banking AED'000	Trading & Other AED'000	Total AED'000
30 June 2020 (Unaudited)					
Net interest income and net income from Islamic financing	**322,994**	**365,134**	**303,539**	**(62,237)**	**929,430**
Non-interest and other income	**142,354**	**107,647**	**190,209**	**42,200**	**482,410**
Total operating income	**465,348**	**472,781**	**493,748**	**(20,037)**	**1,411,840**
Expenses *(note a)*	**64,840**	**60,433**	**244,941**	**16,107**	**386,321**
Net provisions *(note b)*	**409,172**	**16,944**	**56,734**	**12,238**	**495,088**
	474,012	**77,377**	**301,675**	**28,345**	**881,409**
Net profit / (loss) for the period	**(8,664)**	**395,404**	**192,073**	**(48,382)**	**530,431**
30 June 2019 (Unaudited)					
Net interest income and net income from Islamic financing	255,803	298,613	309,204	136,639	1,000,259
Non-interest and other income	161,458	107,170	184,898	56,518	510,044
Total operating income	417,261	405,783	494,102	193,157	1,510,303
Expenses *(note a)*	104,995	69,629	253,634	441	428,699
Net provisions *(note b)*	211,991	74,561	88,940	4,962	380,454
	316,986	144,190	342,574	5,403	809,153
Net profit for the period	100,275	261,593	151,528	187,754	701,150

(a) This includes staff and other expenses and depreciation and amortization.

(b) This includes impairment allowances on due from banks, loans and advances and Islamic financing, investment securities, and other assets, net of recoveries.

The following is an analysis of the total operating income of each segment between income from external parties and inter-segment:

	External parties		**Inter-segment**	
	30 June 2020 AED'000 (Unaudited)	30 June 2019 AED'000 (Unaudited)	**30 June 2020 AED'000 (Unaudited)**	30 June 2019 AED'000 (Unaudited)
Institutional banking	**396,713**	429,558	**68,634**	(12,296)
Corporate banking	**620,208**	601,152	**(147,427)**	(195,370)
Personal banking	**343,695**	339,995	**150,054**	154,107
Trading & Other	**51,224**	139,598	**(71,261)**	53,559
Total operating income	**1,411,840**	1,510,303	**-**	-

20 FINANCIAL ASSETS AND LIABILITIES

20.1 Financial assets and liabilities classification

The table below sets out the Group's financial assets and liabilities classification:

	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000
30 June 2020 (Unaudited)				
Cash and balances with Central Bank	**-**	**-**	**12,265,625**	**12,265,625**
Due from banks, net	**-**	**-**	**3,368,078**	**3,368,078**
Loans and advances and Islamic financing, net	**-**	**-**	**63,419,541**	**63,419,541**
Investment securities	**282,522**	**6,201,458**	**-**	**6,483,980**
Bankers acceptances	**-**	**-**	**5,395,600**	**5,395,600**
Other assets, net	**949,623**	**-**	**737,707**	**1,687,330**
Total financial assets	**1,232,145**	**6,201,458**	**85,186,551**	**92,620,154**
Due to banks	**-**	**-**	**7,522,202**	**7,522,202**
Customer deposits and Islamic customer deposits	**-**	**-**	**65,319,278**	**65,319,278**
Notes and medium term borrowing	**-**	**-**	**3,232,281**	**3,232,281**
Due for trade acceptances	**-**	**-**	**5,395,600**	**5,395,600**
Other liabilities	**876,253**	**-**	**1,086,221**	**1,962,474**
Total financial liabilities	**876,253**	**-**	**82,555,582**	**83,431,835**
31 December 2019 (Audited)				
Cash and balances with Central Bank	-	-	12,592,641	12,592,641
Due from banks, net	-	-	2,427,735	2,427,735
Loans and advances and Islamic financing, net	-	-	60,180,810	60,180,810
Investment securities	253,861	5,359,426	-	5,613,287
Bankers acceptances	-	-	5,346,819	5,346,819
Other assets, net	485,029	-	486,708	971,737
Total financial assets	738,890	5,359,426	81,034,713	87,133,029
Due to banks	-	-	4,166,589	4,166,589
Customer deposits and Islamic customer deposits	-	-	63,334,333	63,334,333
Notes and medium term borrowing	-	-	3,231,072	3,231,072
Due for trade acceptances	-	-	5,346,819	5,346,819
Other liabilities	407,228	-	1,293,923	1,701,151
Total financial liabilities	407,228	-	77,372,736	77,779,964

20.2 Fair value measurement – Fair value hierarchy:

The table below shows categorization of fair value of financial assets and liabilities into different levels of the fair value hierarchy:

Different level of fair value hierarchy have been defined as follows:

Level 1: Quoted market price (unadjusted) in principal market for identified assets / liabilities.

Level 2: Valuation technique based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation technique using significant unobservable inputs.

Except for financial assets and liabilities specified in the below table, the fair value of financial assets and liabilities is not materially different from their carrying value.

20 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

20.2 Fair value measurement – Fair value hierarchy: (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
30 June 2020 (Unaudited)					
Investments					
Equity instruments and funds	**59,327**	**-**	**287,414**	**346,741**	**346,741**
Fixed and floating rate securities	**6,137,239**	**-**	**-**	**6,137,239**	**6,137,239**
Positive market value of forward foreign exchange contracts and other derivatives					
Fair value through profit or loss	**-**	**948,553**	**-**	**948,553**	**948,553**
Held for fair value hedge	**-**	**-**	**-**	**-**	**-**
Held for cash flow hedge	**-**	**1,070**	**-**	**1,070**	**1,070**
Negative market value of forward foreign exchange contracts and other derivatives					
Fair value through profit or loss	**-**	**(862,367)**	**-**	**(862,367)**	**(862,367)**
Held for fair value hedge	**-**	**(11,342)**	**-**	**(11,342)**	**(11,342)**
Held for cash flow hedge	**-**	**(2,544)**	**-**	**(2,544)**	**(2,544)**
Liabilities at amortized cost					
Notes and medium term borrowings	**(1,477,736)**	**(1,763,583)**	**-**	**(3,241,319)**	**(3,232,281)**
	4,718,830	**(1,690,213)**	**287,414**	**3,316,031**	**3,325,069**

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000	Carrying value AED'000
31 December 2019 (Audited)					
Investments					
Equity instruments and funds	48,786	-	254,030	302,816	302,816
Fixed and floating rate securities	5,310,471	-	-	5,310,471	5,310,471
Positive market value of forward foreign exchange contracts and other derivatives					
Fair value through profit or loss	-	484,145	-	484,145	484,145
Held for fair value hedge	-	-	-	-	-
Held for cash flow hedge	-	884	-	884	884
Negative market value of forward foreign exchange contracts and other derivatives					
Fair value through profit or loss	-	(398,070)	-	(398,070)	(398,070)
Held for fair value hedge	-	(5,582)	-	(5,582)	(5,582)
Held for cash flow hedge	-	(3,576)	-	(3,576)	(3,576)
Liabilities at amortized cost	**-**	**-**	**-**		
Notes and medium term borrowings	(1,488,270)	(1,763,153)	-	(3,251,423)	(3,231,072)
	3,870,987	(1,685,352)	254,030	2,439,665	2,460,016

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different from their fair values.

During the period / year, there were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior period.

21 RELATED PARTY TRANSACTIONS AND BALANCES

As at 30 June 2020 and 31 December 2019 Investment Corporation of Dubai ("ICD") owns 20% share capital of the Bank. ICD is wholly owned by the Government of Dubai (the "Government").

The Group in the ordinary course of business enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors.

	Directors and key management personnel		**Government related parties**		**Other related parties**	
	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)	**30 June 2020 AED'000 (Unaudited)**	31 December 2019 AED'000 (Audited)	**30 June 2020 AED'000 (Unaudited)**	31 December 2019 AED'000 (Audited)
Due from banks, net	**-**	-	**143,688**	284,690	**-**	-
Loans and advances and Islamic financing, net	**175,322**	171,238	**1,640,953**	859,201	**1,884,969**	1,905,663
Investment securities	**-**	-	**1,127,194**	1,013,706	**-**	-
Bankers acceptances	**-**	-	**-**	-	**2,343**	2,201
Letters of credit	**-**	-	**7,591**	-	**1,157**	984
Letters of guarantee	**-**	-	**177,699**	212,975	**107,964**	109,428
Undrawn commitments to extend credit	**18,638**	24,188	**253,606**	412,047	**178,956**	298,546
Due to banks	-	-	**-**	-	**-**	-
Customer deposits and Islamic customer deposits	**107,048**	65,568	**3,167,165**	3,863,571	**413,636**	482,932
	30 June 2020 AED'000 (Unaudited)	30 June 2019 AED'000 (Unaudited)	**30 June 2020 AED'000 (Unaudited)**	30 June 2019 AED'000 (Unaudited)	**30 June 2020 AED'000 (Unaudited)**	30 June 2019 AED'000 (Unaudited)
Interest income and commission income	**4,621**	4,914	**21,236**	24,939	**37,565**	16,784
Interest expense	**247**	741	**42,113**	47,257	**2,488**	10,894

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 (whether executive or otherwise) of the Group.

Other related parties represents major shareholders and parties related to directors, key management personnel.

The terms of transactions with related parties are comparable to third party transactions and do not involve more than normal amount of risk.

Sitting fees paid to directors for attending committee meetings during the six month period ended 30 June 2020 amounted to AED 0.67 million (30 June 2019: AED 1.35 million).

Key management compensation	**30 June 2020 AED'000 (Unaudited)**	30 June 2019 AED'000 (Unaudited)
Salaries	**11,089**	11,272
Post-employment benefits	**415**	454
Other benefits	**20,832**	19,690

22 CAPITAL ADEQUACY

The Central Bank of UAE ('CBUAE') supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Group's regulatory capital is analysed into two tiers:

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The table below summarizes the composition of regulatory capital and the ratios of the Group as per BASEL III guidelines and has complied with all of the externally imposed capital requirements to which it is subject. As per the Central Bank regulation for Basel III, the capital requirement as at 30 June 2020 is 13% inclusive of capital conservation buffer of 2.5%. However, effective from 15 March 2020 until 31 December 2021, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, as part of the measures adopted by the CBUAE to help banks deal with the COVID-19 crisis. The bank has also applied the changes approved by the CBUAE to the capital treatment of Small and Medium - sized entities vide it's circular dated 2 April 2020.

	30 June 2020 AED'000 (Unaudited)	31 December 2019 AED'000 (Audited)
Common equity tier 1 (CET1) capital		
Share capital	**2,802,734**	2,802,734
Legal and statutory reserve	**1,401,367**	1,401,367
General reserve	**1,328,025**	1,328,025
Retained earnings	**4,531,907**	4,006,186
Accumulated other comprehensive income	**15,760**	4,325
	10,079,793	9,542,637
Regulatory deductions and adjustments	**(69,558)**	(65,860)
Total CET1 capital	**10,010,235**	9,476,777
Tier 1 capital	**10,010,235**	9,476,777
Tier 2 capital		
Eligible general provision	**900,580**	838,593
Tier 2 capital	**900,580**	838,593
Total regulatory capital	**10,910,815**	10,315,370
Risk weighted assets (RWA)		
Credit risk	**72,046,417**	67,087,410
Market risk	**494,456**	470,053
Operational risk	**5,241,559**	5,241,559
Risk weighted assets	**77,782,432**	72,799,022
Tier 1 ratio	**12.87%**	13.02%
Tier 2 ratio	**1.16%**	1.15%
Capital adequacy ratio	**14.03%**	14.17%

23 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these condensed consolidated interim financial statements, the effect of which are considered immaterial.