Commercial Bank of Dubai PSC

Group condensed consolidated interim financial statements

For the six months period ended 30 June 2021

Commercial Bank of Dubai PSC

Group condensed consolidated interim financial statements

For the six months period ended 30 June 2021

Contents	**Page**

KPMG Lower Gulf Limited
The Offices 5 at One Central
Level 4, Office No: 04.01
Sheikh Zayed Road, P.O. Box 3800
Dubai, United Arab Emirates
Tel. +971 (4) 4030300, www.kpmg.com/ae

Independent Auditors' Report on Review of Group Condensed Consolidated Interim Financial Statements

To the Shareholders of Commercial Bank of Dubai PSC

Introduction

We have reviewed the accompanying 30 June 2021 Group condensed consolidated interim financial statements of Commercial Bank of Dubai PSC. (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the Group condensed consolidated interim statement of financial position as at 30 June 2021;
- the Group condensed consolidated interim statement of profit or loss for the three-month and six-month periods ended 30 June 2021;
- the Group condensed consolidated interim statement of other comprehensive income for three-month and six-month periods ended 30 June 2021;
- the Group condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2021;
- the Group condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2021; and
- notes to the Group condensed consolidated interim financial statements.

Management is responsible for the preparation and fair presentation of this Group condensed consolidated interim financial statements in accordance with International Accounting standard ("IAS") 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this Group condensed consolidated interim financial statements 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 Group condensed consolidated interim financial statements 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 2021 Group condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date: 28 July 2021

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of financial position

As at 30 June 2021

	Notes	**30 June 2021 AED'000 (Unaudited)**	31 December 2020 AED'000 (Audited)
ASSETS			
Cash and balances with Central Bank	*7*	**10,390,505**	13,162,743
Due from banks, net	*8*	**2,904,796**	4,218,894
Loans and advances and Islamic financing, net	*9*	**74,044,353**	65,288,572
Investment securities	*10*	**13,543,284**	5,262,597
Investment in an associate		**90,021**	88,514
Investment properties, net		**191,782**	191,469
Property and equipment		**296,338**	290,025
Bankers acceptances		**8,319,635**	5,972,327
Other assets, net	*11*	**2,985,936**	2,886,419
TOTAL ASSETS		112,766,650	97,361,560
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**6,578,757**	4,782,749
Customer deposits and Islamic customer deposits	*12*	**79,819,844**	69,750,833
Notes and medium term borrowings	*13*	**2,900,323**	1,764,059
Due for trade acceptances		**8,319,635**	5,972,327
Other liabilities	*14*	**2,182,477**	2,137,857
TOTAL LIABILITIES		**99,801,036**	84,407,825
EQUITY			
Share capital	*15.1*	**2,802,734**	2,802,734
Tier 1 capital notes	*15.2*	**2,203,800**	2,203,800
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		**45,579**	65,547
Retained earnings		**5,145,471**	5,113,624
TOTAL EQUITY		**12,965,614**	12,953,735
TOTAL LIABILITIES AND EQUITY		**112,766,650**	97,361,560

To the best of our knowledge, the Group's 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 present herein.

These Group's condensed consolidated interim financial statement were approved and authorized for issue by the Board of Directors on 28 July 2021.

The attached notes from 1 to 23 form part of the Group's 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

Group condensed consolidated interim statement of profit or loss

For the three months and six months period ended 30 June 2021 (unaudited)

		Six months period ended		Three months period ended	
		30 June	30 June	**30 June**	30 June
		2021	2020	**2021**	2020
	Notes	**AED'000**	AED'000	**AED'000**	AED'000
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest income and income from Islamic financing		**1,318,771**	1,503,248	**686,071**	727,035
Interest expense and distributions to Islamic depositors		**(308,909)**	(573,818)	**(152,322)**	(282,293)
Net interest income and net income from Islamic financing		**1,009,862**	929,430	**533,749**	444,742
Net fees and commission income		**384,580**	332,634	**203,078**	131,241
Net gains from foreign exchange and derivatives		**117,616**	109,658	**67,808**	51,843
Net gains from investments at fair value through profit or loss		**2,880**	1,093	**947**	121
Net gains from sale of debt investments at fair value through other comprehensive income		**13,634**	8,644	**4,833**	5,741
Share of gain / (loss) of an associate		**6,152**	(3,750)	**4,025**	525
Dividend income		**2,925**	2,786	**140**	-
Other income		**34,524**	31,345	**26,928**	21,110
Total operating income		**1,572,173**	1,411,840	**841,508**	655,323
Reversal of impairment allowance on due from banks		**411**	1,437	**61**	(243)
Impairment allowance on loans and advances and Islamic financing		**(494,119)**	(493,230)	**(288,784)**	(238,779)
Recoveries of loans and advances and Islamic financing		**19,978**	8,943	**12,153**	(10,718)
(Charge) / reversal of impairment allowance on investment securities		**(372)**	1,960	**(416)**	2,126
Impairment allowance on other assets		**(13,111)**	(14,198)	**(430)**	(7,583)
Total net income		**1,084,960**	916,752	**564,092**	400,126
Staff and other expenses		**(394,760)**	(374,124)	**(205,872)**	(190,823)
Depreciation and amortisation		**(14,145)**	(12,197)	**(7,187)**	5,805
Total operating expenses		**(408,905)**	(386,321)	**(213,059)**	(185,018)
Group net profit for the period		**676,055**	530,431	**351,033**	215,108
Basic and diluted earnings per share	*16*	**AED 0.22**	AED 0.19	**AED 0.10**	AED 0.08

The attached notes from 1 to 23 form part of the Group's condensed consolidated interim financial statements.

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

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of other comprehensive income

For the three months and six months period ended 30 June 2021 (unaudited)

	Six months period ended		Three months period ended	
	30 June 2021 AED'000 (Unaudited)	30 June 2020 AED'000 (Unaudited)	**30 June 2021 AED'000 (Unaudited)**	30 June 2020 AED'000 (Unaudited)
Group net profit for the period	**676,055**	530,431	**351,033**	215,108
Items that will not be reclassified to profit or loss:				
Revaluation (loss) / gain of equity investments held at fair value through other comprehensive income	**(1,684)**	10,541	**5,318**	17,077
Items that may be subsequently reclassified to profit or loss:				
Changes in fair value of effective portion of cash flow hedge	**1,142**	1,218	**(1,049)**	(1,093)
Changes in fair value reserve of an associate	**(49)**	(362)	**18**	(185)
	1,093	856	**(1,031)**	(1,278)
Changes in investments held at fair value through other comprehensive income:				
Realised gain on sale of debt investments	**(13,634)**	(8,644)	**(4,833)**	(5,741)
Revaluation (loss) / gain on debt investments	**(5,743)**	31,629	**58,765**	266,036
Net change in investments held at fair value through other comprehensive income	**(19,377)**	22,985	**53,932**	260,295
Other comprehensive (loss) / income for the period	**(19,968)**	34,382	**58,219**	276,094
Total comprehensive income for the period	**656,087**	564,813	**409,252**	491,202

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

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

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of changes in equity

For the six months period ended 30 June 2021 (unaudited)

	Share capital AED'000	Tier 1 capital notes 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
Balance as 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 paid for 2019 (20.7%)	-	-	-	-	-	-	(580,166)	(580,166)
Directors' remuneration paid 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
Balance as at 30 June 2020 (unaudited)	2,802,734	-	1,401,367	1,328,025	38,638	82,836	4,531,907	10,185,507
Balance as at 1 January 2021	**2,802,734**	**2,203,800**	**1,401,367**	**1,328,025**	**38,638**	**65,547**	**5,113,624**	**12,953,735**
Transactions with shareholders, recorded directly in equity								
Cash dividend paid for 2020 (20%)	**-**	**-**	**-**	**-**	**-**	**-**	**(560,547)**	**(560,547)**
Directors' remuneration paid for 2020	**-**	**-**	**-**	**-**	**-**	**-**	**(15,400)**	**(15,400)**
Interest on Tier 1 capital notes	**-**	**-**	**-**	**-**	**-**	**-**	**(66,114)**	**(66,114)**
Tier 1 capital notes transaction cost	**-**	**-**	**-**	**-**	**-**	**-**	**(1,543)**	**(1,543)**
Share of Director's remuneration of an associate	**-**	**-**	**-**	**-**	**-**	**-**	**(604)**	**(604)**
Other comprehensive income								
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**676,055**	**676,055**
Other comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(19,968)**	**-**	**(19,968)**
Total other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(19,968)**	**676,055**	**656,087**
Balance as at 30 June 2021 (unaudited)	**2,802,734**	**2,203,800**	**1,401,367**	**1,328,025**	**38,638**	**45,579**	**5,145,471**	**12,965,614**

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

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

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of cash flows

For the six months period ended 30 June 2021 (unaudited)

	Notes	**30 June 2021 AED'000 (Unaudited)**	30 June 2020 AED'000 (Audited)
OPERATING ACTIVITIES			
Group net profit for the period		**676,055**	530,431
Adjustments for non-cash and other items:			
Depreciation and amortisation		**14,145**	12,197
Amortisation of premium / discount on investments		**17,903**	16,400
Amortisation of transaction cost on notes and medium term borrowings		**543**	1,209
Loss on foreign exchange translation		**10,362**	431
Unrealized loss on investments at fair value through profit or loss		**105**	176
Realised gains on sale of investments		**(16,242)**	(9,358)
Net unrealised (gain) / loss on derivatives		**(22,166)**	1,402
Charge / (reversal) of impairment allowance on investment securities		**372**	(1,960)
Share of (profit) / loss of an associate		**(6,152)**	3,750
Dividend income		**(2,925)**	(2,786)
Impairment allowance on loans and advances and Islamic financing		**494,119**	493,230
Reversal of impairment allowance on due from banks		**(411)**	(1,437)
Impairment allowance on other assets		**13,111**	14,198
Loss / (gain) on disposal of property and equipment and investment properties		**25**	(15,670)
		1,178,844	1,042,213
(Increase) / decrease in statutory reserve with the UAE Central Bank		**(298,486)**	1,401,349
Decrease in negotiable UAE Central Bank certificate of deposits with original maturity of more than three months		**350,000**	1,000,000
Increase in due from banks with original maturity of more than three months		**(339,686)**	-
Increase in loans and advances and Islamic financing		**(9,249,900)**	(3,731,961)
Increase in other assets		**(228,349)**	(401,014)
Increase in due to banks with original maturity of more than three months		**1,194,437**	2,776,490
Increase in customer deposits and Islamic customer deposits		**10,069,011**	1,984,945
Increase / (decrease) in other liabilities		**186,368**	(215,479)
Directors' remuneration paid		**(15,400)**	(15,400)
Net cash flow from operating activities		**2,846,839**	3,841,143
INVESTING ACTIVITIES			
Purchase of investments		**(16,799,790)**	(2,972,355)
Purchase of property and equipment and investment properties		**(21,474)**	(22,414)
Dividend income received		**2,925**	2,786
Dividend received from an associate		**3,992**	2,661
Proceeds from sale of investments		**8,482,823**	2,133,746
Proceeds from sale of property and equipment and investment properties		**678**	28,715
Net cash flow used in investing activities		**(8,330,846)**	(826,861)
FINANCING ACTIVITIES			
Notes and medium term borrowings		**1,135,721**	-
Interest on Tier 1 capital notes		**(66,114)**	-
Tier 1 capital notes transaction cost		**(1,543)**	-
Dividend paid		**(560,547)**	(580,166)
Net cash flow from / (used in) financing activities		**507,517**	(580,166)
Net (decrease) / increase in cash and cash equivalents		**(4,976,490)**	2,434,116
Cash and cash equivalents at 1 January		**13,329,709**	7,340,365
Cash and cash equivalents at end of the period	*17*	**8,353,219**	9,774,481

The attached notes from 1 to 23 form part of these Group’s 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 Joint Stock Company (PJSC) 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 and retail 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 statement of the group for the six months period ended 30 June 2021 comprise the results of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Detail 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 Group 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 Group 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 Group 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 PREPARTION

2.1 Statement of compliance

The Group's 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 2020.

The accounting policies adopted in the preparation of the Group's 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 2020, except for the new and revised International Financial Reporting Standards mentioned in note 5.

2. BASIS OF PREPARTION (CONTINUED)

2.1 Statement of compliance (continued)

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

2.2 Functional and presentation currency

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

2.3 Basis of consolidation

The Group's 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 2021. 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:
- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVPL).

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; and

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.1 Classification (continued)

Business model assessment (continued)

- 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 FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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:

- 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; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

3.1.2 Impairment of financial assets

The Group recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at FVPL:

- balances with central banks;
- due from banks;
- debt investment securities;
- loans and advances, Islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

No impairment loss is recognized on equity investments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

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 ECL. 12-months ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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 (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

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

ECL are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

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, other historical data and are adjusted to reflect forward-looking information.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, history of recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

(i) Assessment of significant increase in credit risk

Assessment of significant increase in credit risk is performed on 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.

(ii) Improvement of credit risk profile

The Group has defined below criteria in accordance with regulatory guidelines 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(ii) Improvement of credit risk profile (continued)

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

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.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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.

○ ***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.

○ ***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 for the retail portfolio is performed at the account level.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(iii) 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:

- House prices like real estate – Dubai and Abu Dhabi Index;
- Economic Composite Index (ECI);
- Non-Oil Economic Composite Index (NIECI);
- Oil Price per Barrel (OPB);
- Consumer Price Index (CPI) and
- Hotel Occupancy Dubai

(iv) *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;
- the remaining lifetime PD at the reporting date based on the modified terms.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(iv) Modification of financial assets (continued)

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.

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-months 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Interest Rate Benchmark Reform

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other IBORs are expected to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation may be delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

Management is running a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

IBOR reform exposes the Bank to various risks, which the project group is reviewing and monitoring to manage the changes appropriately. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial and Market risk to the Bank and its clients that IBOR reform disrupts markets giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable; and
- Accounting risk if the Bank's hedging relationships fail and form an unrepresentative income statement volatility as financial instruments transition to RFRs.

The Group holds derivatives in its trading book and as hedging instruments. The Group's exposure to US Dollar LIBOR transactions designated in hedge accounting relationships as at 30 June 2021 represents a nominal amount of USD 60 million. There were no items designated in hedging relationships with exposures to other LIBOR rates.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of Group's 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 2020, with the exception of the impact of the COVID-19 outbreak on the Group 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 Group's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 30 June 2021.

(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 2020, the Bank has identified the most vulnerable sectors to this stressed situation in response to the COVID-19 outbreak, and reviews are being conducted on a more frequent basis:

- Tourism and Hospitality
- Aviation and Airlines
- Retail
- Logistics
- Real Estate
- Education

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 Personal banking segments, the Group has approved payment holidays to certain customers. 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.

As required by Central Bank under the notice no CBUAE/BSD/N/2020/2019, the customers benefitting from payment deferrals under the TESS program and the customers benefitting outside the program (Non-TESS) have been split into the below two main categories:

Group 1: Customers that are temporarily and mildly impacted by the Covid-19 crisis.

This sub segment includes borrowers for which the credit deterioration is not considered significant enough to trigger a significant increase in credit risk. Such customers are expected to face short term liquidity issues caused by business disruption / salary cuts and are expected to recover rapidly once the economic environment stabilizes. These accounts are not considered to have sufficient deterioration in credit quality to trigger a stage migration and the staging maybe retained at the pre-crisis level.

Group 2: Customers that are expected to face substantial changes in their credit worthiness beyond liquidity issues.

This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. For customers in Group 2, there may be sufficient deterioration in credit risk to trigger a migration to stage 2 or 3.

The Grouping of the client is based on a combination of quantitative analysis and judgmental approach based on subject matter expert views within the Group.

As of 30 June 2021, there are no clients benefiting from payment deferrals under the TESS program.

Non-Targeted Economic Support Scheme (Non-TESS) utilization by industry and segment as at 30 June 2021 are summarised below:

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(i) Credit risk management (continued)

AED'000

Sector	Group 1		Group 2	
	Amount deferred	**Total loans and advances**	**Amount deferred**	**Total loans and advances**
Construction and real estate	**71,975**	**522,128**	**13,900**	**236,167**
Financial and Insurance activities	**-**	**-**	**-**	**-**
Hospitality	**77,550**	**935,851**	**-**	**-**
Individual loans for business	**4,400**	**24,538**	**-**	**-**
Individual Loans for consumption	**10,970**	**282,278**	**-**	**-**
Manufacturing	**1,000**	**15,564**	**-**	**-**
Services	**39,000**	**209,555**	**-**	**-**
Trade and others	**51,650**	**866,209**	**-**	**-**
	256,545	**2,856,123**	**13,900**	**236,167**
Expected Credit Loss (ECL)		**13,525**		**23,762**

Below is an analysis of change in ECL allowance by industry sector since 1 January 2021 on the bank's customers benefitting from payment deferrals under the Non-TESS program as at 30 June 2021:

AED'000

Sector	Impairment Allowance
ECL allowance as at 1 January 2021	**35,694**
Construction and real estate	**243**
Hospitality	**3,217**
Financial and Insurance activities	**-**
Services	**-**
Manufacturing	**(34)**
Individual loans for business	**(144)**
Individual Loans for consumption	**(346)**
Trade and others	**(1,343)**
ECL allowance as at 30 June 2021	**37,287**

A case by case analysis has been performed for wholesale customers with material exposures and portfolio approach has been followed for retail customers and customers with smaller exposures. Based on the above considerations, customers availing Non-TESS as at 30 June 2021 have been categorised as follows:

AED'000

Segment	Group	Number of Customers	Payment deferrals under Non-TESS	Exposure	Impairment allowance
Institutional and Corporate banking	Group 1	**19**	**256,545**	**2,856,123**	**13,525**
	Group 2	**2**	**13,900**	**236,167**	**23,762**
Total		**21**	**270,445**	**3,092,290**	**37,287**

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(i) Credit risk management (continued)

Migration of staging

Customers that are categorised as Group 1 will remain in the same stage as of Q1 2020 unless conditions of significant increase in credit risk are met, since these customers do not have substantial changes to their credit worthiness. Further, customers that are categorised as Group 2 may move to Stage 3 if they meet the default condition.

The IFRS 9 stage classifications of customers availing Non-TESS as at 30 June 2021 are summarized below:

AED'000

Segment	Stage	Group	Payment deferrals under Non-TESS	Exposure	Impairment allowance
Institutional and corporate banking	Stage 1	Group 1	**256,545**	**2,856,123**	**13,525**
		Group 2	**-**	**-**	**-**
			256,545	**2,856,123**	**13,525**
	Stage 2	Group 1	**-**	**-**	**-**
		Group 2	**13,900**	**236,167**	**23,762**
			13,900	**236,167**	**23,762**
	Stage 3	Group 1	**-**	**-**	**-**
		Group 2	**-**	**-**	**-**
			-	**-**	**-**
Total			**270,445**	**3,092,290**	**37,287**

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(i) Credit risk management (continued)

Stage migration of exposure since 1 January 2021, of customers benefiting from payment deferrals under the Non-TESS program by business segment as at 30 June 2021 are summarised below:

AED'000

	Stage 1	Stage 2	Stage 3	Total
Institutional and corporate banking				
As at 1 January 2021	**2,877,490**	**236,233**	**-**	**3,113,723**
- Transfer from stage 1 to stage 2	**-**	**-**	**-**	**-**
- Transfer from stage 2 to stage 1	**-**	**-**	**-**	**-**
- Transfer from stage 3 to stage 2	**-**	**-**	**-**	**-**
Change in exposure within same stage	**(21,367)**	**(66)**	**-**	**(21,433)**
As at 30 June 2021 (unaudited)	**2,856,123**	**236,167**	**-**	**3,092,290**

(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 contribute to provide relief and mitigate the adverse effects of the crisis. The key risk factors include:

- Sustained periods of lower oil prices combined with significantly 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 an 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 launch of the Targeted Economic Support Scheme ('TESS'), which allows banks to grant temporary relief to certain customers in the way of deferring payments, and allowing banks to apply for zero-cost funding from the Central Bank until 30 June 2022. The TESS deferrals shall be gradually phased-out by 31 December 2021. During this period, banks may avail up to 50% of the earmarked fund for TESS deferrals as of 30 September 2021 and 0% as of 31 December 2021. The details of the benefits under the TESS package have been disclosed under "Other reliefs" section of recent regulatory updates.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(ii) Liquidity risk management (continued)

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 2020. 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. In the period ended 30 June 2020, the bank joined the Central Bank's TESS Programme described above and utilised the zero cost funds available to the bank which was fully paid off on 5 November 2020. 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 exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. The bank has updated its ECL model based on the latest macro-economic data provided by Moody's during Q2-2021.

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro-economic scenarios and weightages will have on the Bank's Expected Credit Losses (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 has been closely monitoring the macro-economic inputs applied to the IFRS 9 model at the bank and has recommended changes required during the current year in the light of relevant information received. The committee 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. During 2020, the bank had updated the macro economic variables that feed into the ECL model and this update reflects the impact of COVID-19 on the macro economic environment and in turn into the bank’s ECL. In Q1-2021, the macro-economic scenario weights were updated in alignment to Moody’s recommended weightage using baseline, upside and downside scenarios with 40%, 30% and 30% weightings respectively. This is in light of the favorable economic outlook of full year 2021 as compared to full year 2020, the progress in the vaccination process in UAE and around the globe, the significant easing concerns of second/third wave of coronavirus, impact of new strains of coronavirus and efficacy of the vaccines toward the new strains. Accordingly, the Group has taken the impact arising on ECL.

In Q2-2021, the bank has updated the risk parameters based on macro-economic forecast provided by Moody’s. In addition, the Bank has also updated the methodology to compute the PD term structure based on multiyear PDs obtained from the macro-economic equations. The macro-economic forecast update resulted in a release in ECL which was partially offset by an update in the PD methodology.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(iv) Fair value measurement of financial instruments

The Group'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 2020. 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 Group'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 2020.

The Bank has not identified any significant impact to the fair values of investment properties during the period ended 30 June 2021. 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.

The constituents of the TESS program are detailed below:

a) <u>Zero cost facility:</u>

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 was earmarked for the Bank and was fully utilized in the quarter ended 30 June 2020. The benefit had been passed onto customers in the form of payment reliefs. On 5 November 2020, the Bank fully paid back the facility.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(vi) Recent regulatory updates: (continued)

a) Zero cost facility: (continued)

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:

- Reduction of the reserve requirements by half for CASA deposits for all banks, from 14% to 7%;
- Under liquidity requirements relief, banks are allowed to fall below Liquidity Coverage Ratio (LCR) up to 70% and Eligible Liquid Assets Ratio (ELAR) up to 7%, to accommodate for the use of ZCF and to provide banks with additional flexibility to support the UAE economy;
- As part of stable funding relief, banks are allowed to fall below Net Stable Funding Ratio (NSFR) up to 90% and Advances to Stable Resources Ratio can be up to 110% to provide banks with additional flexibility to support the UAE economy;
- Funding obtained through CBUAE Zero Cost Funding facility under the TESS program should be treated as stable funding with a 50% factor for calculating NSFR and ASRR; and
- In line with the CBUAE circular notice no. CBUAE/BSD/N/2020/4980 dated 12 November 2020, it has decided to implement the remaining of the Standards in a phased in manner as follows:
  - Q2 2021: (Basel III part 1) Credit Risk, Market Risk and Operational Risk.
  - Q4 2021: (Basel III part 2) Equity Investment in Funds, Securitisation, Counterparty Credit Risk, Leverage Ratio, and Pillar 3 (except for Credit Value Adjustment).
  - Q2 2022: (Basel III part 3) Credit Value Adjustment and Pillar 3 (for Credit Value Adjustment).
- 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.

Concentration analysis:

Please refer to note 9 to the Group's condensed consolidated interim financial information, which discloses the sector categorization of loans and advances as at 30 June 2021.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

(vii) Credit Card Portfolio Acquisition

On 4 February 2021, the Group agreed to acquire a credit card portfolio of a finance company within U.A.E. The agreement was signed between both the parties with a cutoff date of 1 May 2021 subject to meeting condition precedent within the agreement i.e. to provide notice to all existing credit card customers with the option to opt out which ended in April 2021. The purchase price paid including the transaction cost ("transaction price") incurred amounted to AED 65.0 million. Management has assessed the initial fair value as equivalent to transaction price.

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

Relevant new and revised IFRS applied with no material effect on the Group's 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
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to phase 2 of interest rate benchmark reforms	1 January 2021

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 2020.

7. CASH AND BALANCES WITH CENTRAL BANK

	30 June 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Cash on hand	**671,085**	739,726
Balances with Central Bank U.A.E		
- Statutory reserves and other deposits	**2,719,420**	3,073,017
- Negotiable certificates of deposit	**7,000,000**	9,350,000
	10,390,505	13,162,743

Effective 28 October 2020, the CBUAE introduced new regulations regarding reserve requirements for deposit-taking licensed financial institutions. Under the new regulation, deposit-taking licensed institutions are allowed to draw on their reserve balances held in the CBUAE on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that the daily average requirements over a 14-day reserve maintenance period is met. The level of reserves required changes periodically in accordance with business requirements and 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 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Current and demand deposits	**1,577,254**	2,871,638
Overnight, call and short notice	**648,591**	1,008,402
Loans to banks	**679,964**	340,278
Gross due from banks	**2,905,809**	4,220,318
Less: Expected credit losses	**(1,013)**	(1,424)
Net due from banks	**2,904,796**	4,218,894
Within the U.A.E.	**304,767**	387,404
Outside the U.A.E.	**2,600,029**	3,831,490
	2,904,796	4,218,894

Due from banks is classified under stage 1 as per IFRS 9.

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

	30 June 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
At Amortised Cost		
Loans and advances		
Overdrafts	**8,900,541**	7,812,960
Time Loans	**52,296,556**	45,096,499
Advances against letters of credit and trust receipts	**2,475,904**	1,608,063
Bills discounted	**2,199,184**	2,418,037
Gross loans and advances	**65,872,185**	56,935,559
Islamic financing		
Murabaha and Tawaruq	**4,494,945**	4,814,715
Ijara	**7,545,116**	7,114,905
Others	**373,482**	184,120
Gross Islamic financing	**12,413,543**	12,113,740
Gross loans and advances and Islamic financing	**78,285,728**	69,049,299
Less: Expected credit losses	**(4,241,375)**	(3,760,727)
Net loans and advances and Islamic financing	**74,044,353**	65,288,572

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

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 2021 (Unaudited)				
Gross loans and advances and Islamic financing	**63,359,824**	**9,317,871**	**5,608,033**	**78,285,728**
Less: Expected credit losses	**(523,498)**	**(722,406)**	**(2,995,471)**	**(4,241,375)**
Net loans and advances and Islamic financing	**62,836,326**	**8,595,465**	**2,612,562**	**74,044,353**
At 31 December 2020 (Audited)				
Gross loans and advances and Islamic financing	55,506,008	8,377,726	5,165,565	69,049,299
Less: Expected credit losses	(652,976)	(517,923)	(2,589,828)	(3,760,727)
Net loans and advances and Islamic financing	54,853,032	7,859,803	2,575,737	65,288,572

The following is the concentration by sector for loans and advances and Islamic financing:

	30 June 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Manufacturing	**3,670,484**	3,329,049
Construction	**4,350,726**	5,000,476
Real estate	**25,096,238**	23,373,188
Trade	**7,816,809**	6,579,571
Transportation and storage	**3,285,900**	2,720,470
Services	**5,334,619**	5,319,519
Hospitality	**2,601,989**	2,576,351
Financial and insurance activities	**7,700,293**	5,814,070
Government entities	**2,170,346**	1,333,967
Personal - mortgage	**5,633,462**	4,036,946
Personal - schematic	**6,077,860**	4,952,897
Individual loans for business	**1,046,847**	1,241,197
Others	**3,500,155**	2,771,598
Gross loans and advances and Islamic financing	**78,285,728**	69,049,299
Less: Expected credit losses	**(4,241,375)**	(3,760,727)
Net loans and advances and Islamic financing	**74,044,353**	65,288,572

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

An analysis of changes in the ECL is as follows:

	30 June 2021 AED'000 (Unaudited)	30 June 2020 AED'000 (Audited)
ECL allowance at the beginning of the period	**3,760,727**	3,858,451
Net expected credit losses	**494,119**	493,229
Interest not recognised	**185,046**	231,057
Recoveries	**(37,786)**	(59,414)
Amounts written off	**(160,731)**	(1,184,460)
ECL allowance at the end of the period	**4,241,375**	3,338,863

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 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	**1,238,129**	1,092,625
Less: Stage 1 and Stage 2 provisions under IFRS 9	**1,245,904**	1,170,899
General provision transferred to the impairment reserve*	**-**	-
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**2,749,400**	2,328,085
Less: Stage 3 provisions under IFRS 9	**2,995,471**	2,589,828
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**-**	-

*In the 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 53.0 million (31 December 2020: AED 60.0 million). Net positive fair value of the hedged component is AED 3.0 million (31 December 2020: AED 3.7 million).

10. INVESTMENT SECURITIES

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
30 June 2021 (Unaudited)				
Held at fair value through profit or loss				
Fixed rate securities				
- Government	**4,040**	**729**	**-**	**4,769**
- Others	**13,784**	**732**	**-**	**14,516**
Quoted equity instruments	**-**	**-**	**-**	**-**
Unquoted equity instruments and fund	**1,837**	**-**	**276,078**	**277,915**
Held at fair value through other comprehensive income				
Quoted equity instruments	**70,141**	**-**	**-**	**70,141**
Unquoted equity instruments and fund	**26,254**	**-**	**-**	**26,254**
Fixed rate securities				
- Government	**2,381,391**	**878,184**	**594,559**	**3,854,134**
- Others	**1,712,092**	**441,021**	**1,699,454**	**3,852,567**
Floating rate non-government securities	**225,384**	**-**	**136,896**	**362,280**
At amortised cost				
Fixed rate government securities	**5,080,708**	**-**	**-**	**5,080,708**
	9,515,631	**1,320,666**	**2,706,987**	**13,543,284**

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
31 December 2020 (Audited)				
Held at fair value through profit or loss				
Fixed rate securities				
- Government	3,353	-	-	3,353
- Others	22,243	1,292	-	23,535
Quoted equity instruments	-	-	22,025	22,025
Unquoted equity instruments and fund	-	-	272,076	272,076
Held at fair value through other comprehensive income				
Quoted equity instruments	71,824	-	-	71,824
Unquoted equity instruments and fund	27,978	-	293	28,271
Fixed rate securities				
- Government	1,069,106	633,556	76,912	1,779,574
- Others	1,173,884	319,935	1,257,182	2,751,001
Floating rate non-government securities	147,024	-	163,914	310,938
	2,515,412	954,783	1,792,402	5,262,597

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 3.5 billion (31 December 2020: AED 2.2 billion), pledged under repurchase agreements with banks.

11. OTHER ASSETS, NET

	30 June 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Accrued interest receivable	**484,606**	482,007
Accounts receivable and prepayments	**526,959**	359,128
Positive mark to market value of derivatives	**759,136**	874,857
Properties acquired in settlement of debt, net	**1,215,235**	1,170,427
	2,985,936	2,886,419

12. CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	30 June 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Customer deposits		
Current and demand accounts	**23,573,020**	21,668,539
Savings accounts	**3,606,976**	3,410,165
Time deposits	**33,394,597**	28,403,618
	60,574,593	53,482,322
Islamic customer deposits		
Current and demand accounts	**4,207,110**	3,267,590
Mudaraba savings accounts	**547,272**	571,232
Investment and Wakala deposits	**14,490,869**	12,429,689
	19,245,251	16,268,511
Total customer deposits and Islamic customer deposits	**79,819,844**	69,750,833

13. NOTES AND MEDIUM TERM BORROWINGS

		31 December 2020 AED'000 (Audited)	**Cash flow changes AED'000**	**Non cash flow changes AED'000**	**30 June 2021 AED'000 (Unaudited)**
Syndicated loan	13.1	**620,818**	**-**	**543**	**621,361**
Repurchase agreements - I	13.2	**551,442**	**-**	**-**	**551,442**
Repurchase agreements - II	13.2	**591,799**	**-**	**-**	**591,799**
Repurchase agreements - III	13.2	**-**	**1,135,721**	**-**	**1,135,721**
Euro medium term notes	13.3	**-**	**-**	**-**	**-**
Total		**1,764,059**	**1,135,721**	**543**	**2,900,323**

13. NOTES AND MEDIUM TERM BORROWINGS (CONTINUED)

		31 December 2019 AED'000 (Audited)	Cash flow changes AED'000	Non cash flow changes AED'000	31 December 2020 AED'000 (Audited)
Syndicated loan	13.1	619,912	-	906	620,818
Repurchase agreements - I	13.2	551,442	-	-	551,442
Repurchase agreements - II	13.2	591,799	-	-	591,799
Repurchase agreements - III	13.2	-	-	-	-
Euro medium term notes	13.3	1,467,919	(1,469,200)	1,281	-
Total		3,231,072	(1,469,200)	2,187	1,764,059

13.1 *Syndicated loan*

In August 2019, the Group entered into a club deal of USD 170.0 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.

13.2 *Repurchase agreements*

The Group entered into multiple repo transactions to obtain financing against the sale of certain debt securities. The repo transactions details are as follows;

	Purchase date	**Maturity date**	**Amount in USD (millions)**	**Amount in AED (millions)**
Repurchase agreements - I	July 2012	July 2022	150.1	551.4
Repurchase agreements - II	June 2016	July 2021	161.1	591.8
Repurchase agreements - III	June 2021	June 2026	309.2	1,135.7

As at 30 June 2021 the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 2,853.2 million (USD 776.8 million) (31 December 2020: AED 1,455.7 million (USD 396.3 million)).

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 matured on 17 November 2020.

14. OTHER LIABILITIES

	30 June 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Accrued interest payable	**264,476**	379,243
Employees' terminal benefits	**50,913**	49,941
Accounts payable	**613,906**	507,024
Accrued expenses	**98,852**	125,874
Manager cheques	**403,866**	221,077
Unearned fee income and deferred credits	**97,131**	59,617
Negative mark to market value of derivatives	**653,333**	795,081
	2,182,477	2,137,857

15. EQUITY

15.1 Share capital

The fully paid up and authorised ordinary share capital as at 30 June 2021 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2020: 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.

15.2 Tier 1 capital

The Group had issued USD 600 million (AED 2,203.8 million) of Tier 1 Capital Securities at a price of 6% per annum on 21 October 2020. The notes are non-callable for 6 years and are listed on Euronext Dublin and Nasdaq Dubai.

The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default.

The accounting treatment for the securities is governed by IAS 32 Financial Instruments Presentation. As per IAS 32, the instrument qualifies as an equity instrument and the interest paid on the securities is accounted for as a deduction from retained earnings. The accounting treatment for issuing securities transaction costs are accounted for as a deduction from equity. These are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

16. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit (further adjusted for interest expense and transaction cost on Tier 1 capital notes) divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (30 June 2020: 2,802,733,968).

	Six months period ended		**Three months period ended**	
	30 June 2021 AED'000 (Unaudited)	30 June 2020 AED'000 (Unaudited)	**30 June 2021 AED'000 (Unaudited)**	30 June 2020 AED'000 (Unaudited)
Net profit for the period	**676,055**	530,431	**351,033**	215,108
Deduct : Interest on Tier 1 capital notes	**(66,114)**	-	**(66,114)**	-
Deduct : Tier 1 capital notes transaction cost	**(1,543)**	-	-	-
Adjusted net profit for the period	**608,398**	530,431	**284,919**	215,108
Weighted average number of ordinary shares ('000)	**2,802,734**	2,802,734	**2,802,734**	2,802,734
Adjusted earnings per share (AED)	**0.22**	0.19	**0.10**	0.08

Diluted earnings per share for the six months period ended 30 June 2021 and 30 June 2020 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 group's condensed consolidated interim statement of cash flows comprise the following group's condensed consolidated interim statement of financial position amounts:

	30 June 2021 AED'000 (Unaudited)	30 June 2020 AED'000 (Unaudited)
Cash on hand	**671,085**	676,080
Statutory reserves and other deposits	**2,719,420**	5,689,545
Negotiable certificates of deposit with the UAE Central Bank	**7,000,000**	5,900,000
Due from banks	**2,905,809**	3,368,078
	13,296,314	15,633,703
Less: UAE Central Bank statutory reserves requirement	**(2,719,420)**	(2,312,614)
Less: Negotiable certificates of deposit with the UAE Central Bank with original maturity more than three months	**-**	(1,400,000)
Less: Due from banks with original maturity of more than three months	**(679,964)**	(358,325)
Less: Due to UAE Central Bank balances	**(310,014)**	-
Less: Due to banks with original maturity of less than three months	**(1,233,697)**	(1,788,283)
	8,353,219	9,774,481

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 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)
Contingent liabilities:		
Letters of credit	**3,031,276**	2,883,465
Letters of guarantee	**10,905,795**	11,104,923
Total contingent liabilities	**13,937,071**	13,988,388
Undrawn commitments to extend credit	**17,347,502**	14,518,690
Total contingent liabilities and undrawn commitments	**31,284,573**	28,507,078

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 current quarter, there has been a change to the organization structure and the portfolio allocation to the business segments. This is to streamline the allocation of customers between Institutional and Corporate banking, with now the former focusing on genuine Institutions whilst the latter targeting the regional corporates. The prior comparative period figures have been accordingly reclassified to conform to the current period presentation.

The business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs. Interest is charged or credited to business segments and branches to match funding at transfer pricing rates which approximate the cost of funds.

<u>Business segments</u>

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.

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 2021 (Unaudited)					
Assets	**32,980,116**	**40,926,534**	**11,261,474**	**27,598,526**	**112,766,650**
Liabilities	**50,733,346**	**14,321,890**	**24,498,730**	**10,247,070**	**99,801,036**
31 December 2020 (Unaudited)					
Assets	27,595,004	36,891,141	9,036,451	23,838,964	97,361,560
Liabilities	42,413,426	12,127,592	22,410,595	7,456,212	84,407,825

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 2021 (Unaudited)					
Net interest income and net income from Islamic financing	**309,978**	**544,184**	**289,659**	**(133,959)**	**1,009,862**
Non-interest and other income	**127,096**	**135,536**	**229,917**	**69,762**	**562,311**
Total operating income	**437,074**	**679,720**	**519,576**	**(64,197)**	**1,572,173**
Expenses *(note a)*	**83,103**	**72,317**	**225,978**	**27,507**	**408,905**
Net provisions *(note b)*	**203,076**	**254,785**	**15,868**	**13,484**	**487,213**
	286,179	**327,102**	**241,846**	**40,991**	**896,118**
Net profit / (loss) for the period	**150,895**	**352,618**	**277,730**	**(105,188)**	**676,055**
30 June 2020 (Unaudited)					
Net interest income and net income from Islamic financing	291,225	413,764	286,661	(62,220)	929,430
Non-interest and other income	125,845	121,246	172,630	62,689	482,410
Total operating income	417,070	535,010	459,291	469	1,411,840
Expenses *(note a)*	69,976	61,155	199,950	55,240	386,321
Net provisions *(note b)*	388,276	39,367	55,209	12,236	495,088
	458,252	100,522	255,159	67,476	881,409
Net profit / (loss) for the period	(41,182)	434,488	204,132	(67,007)	530,431

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

b) This includes expected credit loss 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 2021 AED'000 (Unaudited)	30 June 2020 AED'000 (Unaudited)	**30 June 2021 AED'000 (Unaudited)**	30 June 2020 AED'000 (Unaudited)
Institutional banking	**283,583**	211,931	**153,491**	205,139
Corporate banking	**763,815**	780,804	**(84,095)**	(245,794)
Personal banking	**423,078**	347,390	**96,498**	111,901
Trading & Other	**101,697**	71,715	**(165,894)**	(71,246)
Total operating income	**1,572,173**	1,411,840	**-**	-

20. FINANCIAL ASSETS AND LIABILITIES

20.1 Financial asset and liabilities classification

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

	Fair value through profit or loss AED'000	Fair value through OCI AED'000	Amortised cost AED'000	Total carrying amount AED'000
30 June 2021 (Unaudited)				
Cash and balances with Central Bank	-	-	10,390,505	10,390,505
Due from banks, net	-	-	2,904,796	2,904,796
Loans and advances and Islamic financing, net	-	-	74,044,353	74,044,353
Investment securities	297,200	8,165,376	5,080,708	13,543,284
Bankers acceptances	-	-	8,319,635	8,319,635
Other assets, net	759,136	-	969,023	1,728,159
Total financial assets	1,056,336	8,165,376	101,709,020	110,930,732
Due to banks	-	-	6,578,757	6,578,757
Customer deposits and Islamic customer deposits	-	-	79,819,844	79,819,844
Notes and medium term borrowing	-	-	2,900,323	2,900,323
Due for trade acceptances	-	-	8,319,635	8,319,635
Other liabilities	653,333	-	1,432,013	2,085,346
Total financial liabilities	653,333	-	99,050,572	99,703,905

20. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

20.1 Financial asset and liabilities classification (continued)

	Fair value through profit or loss AED'000	Fair value through OCI AED'000	Amortised cost AED'000	Total carrying amount AED'000
31 December 2020 (Audited)				
Cash and balances with Central Bank	-	-	13,162,743	13,162,743
Due from banks, net	-	-	4,218,894	4,218,894
Loans and advances and Islamic financing, net	-	-	65,288,572	65,288,572
Investment securities	320,989	4,941,608	-	5,262,597
Bankers acceptances	-	-	5,972,327	5,972,327
Other assets, net	874,857	-	815,707	1,690,564
Total financial assets	1,195,846	4,941,608	89,458,243	95,595,697
Due to banks	-	-	4,782,749	4,782,749
Customer deposits and Islamic customer deposits	-	-	69,750,833	69,750,833
Notes and medium term borrowing	-	-	1,764,059	1,764,059
Due for trade acceptances	-	-	5,972,327	5,972,327
Other liabilities	795,081	-	1,283,159	2,078,240
Total financial liabilities	795,081	-	83,553,127	84,348,208

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 an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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
30 June 2021 (Unaudited)				
Investments				
Equity instruments and funds	**70,141**	**-**	**304,169**	**374,310**
Fixed and floating rate securities	**8,088,266**	**-**	**-**	**8,088,266**
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**757,183**	**-**	**757,183**
Held for fair value hedge	**-**	**1,953**	**-**	**1,953**
Held for cash flow hedge	**-**	**-**	**-**	**-**
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**(641,591)**	**-**	**(641,591)**
Held for fair value hedge	**-**	**(6,470)**	**-**	**(6,470)**
Held for cash flow hedge	**-**	**(5,272)**	**-**	**(5,272)**
	8,158,407	**105,803**	**304,169**	**8,568,379**

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000
31 December 2020 (Audited)				
Investments				
Equity instruments and funds	93,849	-	300,347	394,196
Fixed and floating rate securities	4,868,401	-	-	4,868,401
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	874,389	-	874,389
Held for fair value hedge	-	468	-	468
Held for cash flow hedge	-	-	-	-
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	(780,214)	-	(780,214)
Held for fair value hedge	-	(8,453)	-	(8,453)
Held for cash flow hedge	-	(6,414)	-	(6,414)
	4,962,250	79,776	300,347	5,342,373

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 2021 and 31 December 2020 Investment Corporation of Dubai ("ICD") owns 20% share capital of the Group. 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 2021 AED'000 (Unaudited)	31 December 2020 AED'000 (Audited)	**30 June 2021 AED'000 (Unaudited)**	31 December 2020 AED'000 (Audited)	**30 June 2021 AED'000 (Unaudited)**	31 December 2020 AED'000 (Audited)
Due from banks	**-**	-	**128,482**	138,766	**-**	-
Loans and advances and Islamic financing	**136,241**	194,195	**1,676,186**	1,577,176	**1,977,335**	1,925,264
Investment securities	**-**	-	**912,831**	715,360	**-**	-
Bankers acceptances	**-**	-	**-**	-	**2,038**	4,509
Letters of credit	**-**	-	**1,033**	-	**3,926**	3,294
Letters of guarantee	**-**	-	**63,686**	207,585	**99,856**	101,619
Undrawn commitments to extend credit	**10,949**	15,707	**75,621**	275,416	**499,379**	226,605
Due to banks	**-**	-	**-**	-	**-**	-
Customer deposits and Islamic customer deposits	**121,197**	112,264	**4,366,043**	4,631,362	**510,498**	443,840

	30 June 2021 AED'000 (Unaudited)	30 June 2020 AED'000 (Unaudited)	**30 June 2021 AED'000 (Unaudited)**	30 June 2020 AED'000 (Unaudited)	**30 June 2021 AED'000 (Unaudited)**	30 June 2020 AED'000 (Unaudited)
Interest income and commission income	**3,939**	4,621	**18,455**	21,236	**32,425**	37,565
Interest expense	**115**	247	**20,715**	42,113	**1,570**	2,488

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 months period ended 30 June 2021 amounted to AED 1.61 million (30 June 2020: AED 0.67 million).

21. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	30 June 2021 AED'000 (Unaudited)	30 June 2020 AED'000 (Unaudited)
Salaries	**10,818**	11,089
Post-employment benefits	**400**	415
Other benefits	**40,580**	20,832

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 Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 (T2), depending on their characteristics.

- 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.
- AT1 capital comprises eligible non-common equity capital instruments.
- 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 2021 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.

22. CAPITAL ADEQUACY (CONTINUED)

	30 June 2021 AED'000 (Unaudited)	31 December 2020 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	**5,145,471**	4,537,750
Accumulated other comprehensive income	**2,615**	26,269
IFRS transitional arrangement	**119,138**	44,133
	10,799,350	10,140,278
Regulatory deductions and adjustments	**(111,111)**	(100,504)
Total CET1 capital	**10,688,239**	10,039,774
Additional tier 1 (AT1) Capital	**2,203,800**	2,203,800
Tier 1 capital	**12,892,039**	12,243,574
Tier 2 capital		
Eligible general provision	**1,031,774**	910,521
Tier 2 capital	**1,031,774**	910,521
Total regulatory capital	**13,923,813**	13,154,095
Risk weighted assets (RWA)		
Credit risk	**82,541,926**	72,841,690
Market risk	**757,014**	665,207
Operational risk	**5,460,071**	5,494,457
Risk weighted assets	**88,759,011**	79,001,354
Tier 1 ratio	**14.52%**	15.50%
Tier 2 ratio	**1.16%**	1.15%
Capital adequacy ratio	**15.69%**	16.65%

23. COMPARATIVE FIGURES

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