Bank of Sharjah P.J.S.C.

Review report and
condensed consolidated interim financial information
for the six-month period ended 30 June 2023

Bank of Sharjah P.J.S.C.

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Grant Thornton

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Report on Review of Condensed Consolidated Interim Financial Information to the Board of Directors of Bank of Sharjah P.J.S.C.

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Bank of Sharjah P.J.S.C. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2023 and the related condensed consolidated interim statement of profit or loss, condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of the condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim statement information based on our review.

Scope of Review

We conducted our review in accordance with the International Standards on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

We draw attention to Note 2.1 of the condensed consolidated interim financial information, which describes the delinking i.e. de-consolidation of Bank's Lebanese subsidiary, Emirates Lebanon Bank S.A.L. (EL Bank), effective 1 April 2023. This requires the subsidiary to be measured at the lower of its carrying amount and fair value less cost to sell, in accordance with IFRS 5 'Non-current Assets held for sale and discontinued operations'. Our review report is not modified in respect of this matter.

GRANT THORNTON

Dr. Osama El-Bakry
Registration No: 935
Dubai, United Arab Emirates
Date: 02 October 2023

Condensed consolidated interim statement of financial position
As at

	Note	30 June 2023 (unaudited) AED'000	31 December 2022 (audited) AED'000
ASSETS			
Cash and balances with central banks	6	**4,402,208**	3,949,107
Deposits and balances due from banks	7	**780,654**	113,897
Loans and advances, net	8	**21,934,474**	21,623,267
Investments measured at fair value	9	**410,805**	434,308
Investments measured at amortised cost	9	**7,372,261**	7,335,160
Investment properties		**1,158,109**	1,158,109
Intangible assets		**-**	22,055
Assets acquired in settlement of debt		**1,137,443**	1,227,821
Other assets	10	**1,264,212**	1,254,145
Derivative assets held for risk management		**6,053**	6,388
Property and equipment		**216,451**	278,074
Subsidiary held for sale	2.1	**844,790**	-
Total assets		**39,527,460**	37,402,331
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	11	**25,284,599**	25,281,131
Deposits and balances due to banks	12	**185,442**	662,333
Repo borrowings	13	**4,132,622**	5,003,552
Other liabilities	14	**1,822,942**	1,901,538
Issued bonds	15	**4,423,880**	3,059,421
Total liabilities		**35,849,485**	35,907,975
Equity			
Capital and reserves			
Share capital		**3,000,000**	2,200,000
Statutory reserve		**1,050,000**	1,050,000
Contingency reserve		**-**	640,000
Impairment reserve		**203,706**	147,624
Investment fair value reserve		**(713,294)**	(706,370)
Currency translation reserve		**(386,675)**	(1,911,502)
Retained earnings		**521,809**	71,551
Equity attributable to equity holders of the Bank		**3,675,546**	1,491,303
Non-controlling interests		**2,429**	3,053
Total equity		**3,677,975**	1,494,356
Total liabilities and equity		**39,527,460**	37,402,331

To the best of our knowledge, the condensed interim consolidated financial information presents fairly in all material respects the financial position, results of operations and cashflows of the Group as of, and for, the periods presented therein.
The condensed consolidated interim financial information was approved by the Board of Directors and authorised for issue on 02 OCT 2023

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Mohammed Bin Saud Al Qasimi
Chairman

Mohamed Khadiri
CEO

Condensed consolidated interim statement of profit or loss (unaudited) for the six-month period ended

	Note	**30 June 2023 AED'000**	30 June 2022 AED'000
Interest income		**811,446**	579,976
Interest expense		**(712,240)**	(353,698)
Net interest income		**99,206**	226,278
Net fee and commission income		**115,978**	86,638
Exchange profit		**7,483**	20,629
Income on investments		**172**	29,217
Net loss on properties		**(5,250)**	(6,412)
Other income		**6,418**	3,637
Operating income		**224,007**	359,987
Net impairment reversal/(loss) on financial assets	16	**2,873**	(138,284)
Net operating income		**226,880**	221,703
Personnel expenses		**(77,000)**	(71,004)
Depreciation		**(13,822)**	(16,657)
Other expenses		**(62,415)**	(40,202)
Impairment/ Amortisation of intangible assets		**(18,365)**	(583)
Hyperinflation impact from a subsidiary		**-**	(287,166)
Net impairment charge on assets held for sale	2.1	**(199,153)**	-
Loss before taxes		**(143,875)**	(193,909)
Income tax expense - overseas		**-**	(1,581)
Net loss for the period		**(143,875)**	(195,490)
Attributable to:			
Equity holders of the Bank		**(143,251)**	(195,332)
Non-controlling interests		**(624)**	(158)
Net loss for the period		**(143,875)**	(195,490)
Basic and diluted loss per share (AED)	19	**(0.065)**	(0.089)

Condensed consolidated interim statement of comprehensive income (unaudited) for the six-month period ended

	30 June 2023 AED'000	30 June 2022 AED'000
Loss for the period	**(143,875)**	(195,490)
Other comprehensive income items		
Items that will not be reclassified subsequently to the condensed consolidated interim statement of profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments)	**(7,920)**	5,582
Net changes in fair value of own credit risk on financial liabilities designated at fair value through profit or loss	-	6,526
Items that may be reclassified subsequently to condensed consolidated interim statement of profit or loss:		
Translation differences from a subsidiary	**(386,675)**	236,665
Other comprehensive (loss)/income for the period	**(394,595)**	248,773
Total comprehensive (loss)/income for the period	**(538,470)**	53,283
Attributable to:		
Equity holders of the Bank	**(537,846)**	53,441
Non-controlling interests	**(624)**	(158)
Total comprehensive (loss)/income for the period	**(538,470)**	53,283

Bank of Sharjah P.J.S.C.

Condensed consolidated interim statement of changes in equity for the six-month period ended

	Share capital AED'000	Statutory reserve AED'000	Contingency reserve AED'000	Impairment reserve AED'000	Investment fair value reserve AED'000	Currency translation reserve AED'000	(Accumulated Losses)/ Retained earnings AED'000	Total equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2022 (audited)	2,200,000	1,050,000	640,000	220,972	(681,292)	(2,083,048)	57,404	1,404,036	7,336	1,411,372
Loss for the period	-	-	-	-	-	-	(195,332)	(195,332)	(158)	(195,490)
Other comprehensive income	-	-	-	-	12,108	236,665	-	248,773	-	248,773
Total comprehensive income for the period	-	-	-	-	12,108	236,665	(195,332)	53,441	(158)	53,283
Hyperinflation impact	-	-	-	-	-	-	46,925	46,925	-	46,925
Transfer to retained earnings	-	-	-	(81,191)	-	-	81,191	-	-	-
Balance at 30 June 2022 (unaudited)	2,200,000	1,050,000	640,000	139,781	(669,184)	(1,846,383)	(9,812)	1,504,402	7,178	1,511,580
Balance at 1 January 2023 (audited)	2,200,000	1,050,000	640,000	147,624	(706,370)	(1,911,502)	71,551	1,491,303	3,053	1,494,356
Subsidiary held for sale opening balance adjustment (Note 2.1)	-	-	-	-	996	1,911,502	9,591	1,922,089	-	1,922,089
Balance at 1 January 2023 (adjusted)	2,200,000	1,050,000	640,000	147,624	(705,374)	-	81,142	3,413,392	3,053	3,416,445
Loss for the period	-	-	-	-	-	-	(143,251)	(143,251)	(624)	(143,875)
Other comprehensive loss	-	-	-	-	(7,920)	(386,675)	-	(394,595)	-	(394,595)
Total comprehensive loss for the period	-	-	-	-	(7,920)	(386,675)	(143,251)	(537,846)	(624)	(538,470)
Transfer to share capital	800,000	-	-	-	-	-	-	800,000	-	800,000
Transfer from retained earnings	-	-	-	56,082	-	-	(56,082)	-	-	-
Transfer to retained earnings	-	-	(640,000)	-	-	-	640,000	-	-	-
Balance at 30 June 2023 (unaudited)	3,000,000	1,050,000	-	203,706	(713,294)	(386,675)	521,809	3,675,546	2,429	3,677,975

Condensed consolidated interim statement of cash flows (unaudited) for the six-month period ended 30 June

	2023 AED'000	2022 AED'000
Cash flows from operating activities		
Net loss before tax for the period	**(143,875)**	(193,909)
Adjustments for:		
Depreciation of property and equipment	**13,822**	17,919
Impairment/amortisation of other intangible assets	**18,365**	583
Amortisation of (discount) on debt instruments/accretion of premium	**(39,141)**	18
Loss/(gain) on sale on property and equipment	**11,266**	(581)
Net fair value loss on issued debt securities	**5,437**	802
Net fair value gain on interest rate swaps	**(5,437)**	(802)
Net fair value changes on other financial assets at FVTPL	**13,060**	18,322
Realised loss on sale of assets acquired in settlement of debt	**219**	-
Net impairment (gain)/ loss on financial assets	**(2,873)**	138,284
Net impairment charge on assets held for sale	**199,153**	-
Dividends income	**(13,161)**	(21,591)
Hyperinflation impact from a subsidiary	**-**	287,166
Operating profit before changes in operating assets and liabilities	**56,835**	246,211
Changes in		
Deposits and balances due from banks maturing after three months from dates of placements	**1,028,366**	1,393,798
Statutory deposits with central banks	**428,229**	269,343
Loans and advances	**879,348**	208,878
Other assets	**103,386**	(296,060)
Derivative assets held for risk management	**335**	-
Customers' deposits	**(2,488,369)**	1,245,353
Other liabilities	**(267,781)**	20,065
Net cash (used in)/generated from operating activities	**(259,651)**	3,087,588
Cash flows from investing activities		
Purchase of property and equipment	**(10,267)**	(3,799)
Payment to acquire investments at FVTPL	**(2,661)**	-
Payment to acquire investments at amortised cost	**-**	(21,789)
Proceeds from sale of assets acquired as settlement of debt	**23,310**	132,760
Additions to investment properties	**-**	(130)
Proceeds from sale of investments FVTPL	**274**	45,064
Dividends received	**13,161**	21,591
Net cash generated from investing activities	**23,817**	173,697
Cash flows from financing activities		
Proceeds from issued bond	**1,808,732**	-
Proceeds from issuance of shares	**800,000**	-
Settlement of repo borrowings	**(850,000)**	
Settlement of issued bonds	**(459,125)**	(1,836,500)
Payment of lease liabilities	**(13,238)**	(12,098)
Net cash generated from/ (used in) financing activities	**1,286,369**	(1,848,598)
Net increase in cash and cash equivalents	**1,050,535**	1,412,690
Effect of movement in exchange rates on cash held	**-**	29,388
Cash and cash equivalents at the beginning of the period	**3,316,606**	689,518
Cash and cash equivalents at the end of the period (Note 6)	**4,367,141**	2,131,596

1. General information

Bank of Sharjah P.J.S.C. (the "Bank"), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through eight branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain. The accompanying condensed consolidated interim financial information combine the activities of the Bank and its subsidiaries (collectively the "Group"). These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the prior year's annual report.

2. Basis of preparation

2.1 Subsidiary held for sale

The Central Bank of the UAE supports the Bank's strategic effort to delink/deconsolidate its Lebanese Subsidiary, as the underlying accounting anomalies impact is not sustainable for the Bank and pose a threat for even greater unnecessary volatility. Accordingly, the ultimate immediate objective was to cease the consolidation of the Lebanese Subsidiary financial statements in the Group's financial statements as per the Central Bank of the UAE recommendations effective 1 April 2023. This is required in order to avoid the unnecessary accounting anomalies and/or disruptions resulting from the consolidation of the Lebanese Subsidiary. On 22 June 2023, the board approved the de-linking.

When the Group classifies the Lebanese subsidiary as an "asset held for sale" involving loss of control and the sale is highly probable within 12 months, all the assets and liabilities of that subsidiary are classified as held for sale. Once classified in this category, the group of assets and liabilities are measured at the lower of carrying amount or fair value less costs to sell. If the group of assets and liabilities becomes impaired, an impairment loss is recognised in the condensed consolidated interim statement of profit and loss. Impairment losses may be reversed. The fair value less cost to sell estimate is a significant judgement and it is determined based on the market offer approach.

The breakdown of the Lebanese subsidiary's net assets as at 1 April 2023 is as follows:

ASSETS	**AED'000**
Cash and balances with central banks	**2,892,460**
Deposits and balances due from banks	**10,497**
Loans and advances, net	**1,090,017**
Investments measured at fair value	**29,567**
Investments measured at amortised cost	**43,344**
Other intangibles	**345**
Assets acquired in settlement of debt	**79,641**
Other assets	**17,989**
Property and equipment	**6,040**
Total assets	**4,169,900**
LIABILITIES	
Customers' deposits	**2,318,968**
Deposits and balances due to banks	**617,261**
Other liabilities	**189,728**
Total liabilities	**3,125,957**
Net assets	**1,043,943**
Fair value of net assets	**844,790**

2. Basis of preparation (continued)

2.2 Basis of preparation

The accounting policies used in the preparation of this condensed consolidated interim financial information is consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2022. This condensed consolidated interim financial information does not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2022. In addition, results for the period from 1 January 2023 to 30 June 2023 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, Islamic financing and investing assets and investment properties have been disclosed in the condensed consolidated interim financial information.

Basis of measurement - The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values as explained in the accounting policies below.

Functional and presentation currency - The condensed consolidated interim financial information is presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands' dirham, except when otherwise indicated.

Basis of consolidation - This condensed consolidated interim financial information incorporates the condensed interim financial information of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

- power over the investee,
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The condensed consolidated interim financial information comprises the financial statements of the Bank and of the following subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

2. Basis of preparation (continued)

2.2 Basis of preparation (continued)

The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Name of Subsidiary	Proportion of ownership interest		Year of incorporation	Year of acquisition	Country of incorporation	Principal activities
	2023	2022				
Emirates Lebanon Bank S.A.L.	**100%**	100%	1965	2008	Lebanon	Financial institution
El Capital FZC	**100%**	100%	2007	2017	U.A.E.	Investment in a financial institution
BOS Real Estate FZC	**100%**	100%	2007	2007	U.A.E.	Real estate development activities
BOS Capital FZC	**100%**	100%	2007	2007	U.A.E.	Investment
Polyco General Trading L.L.C.	**100%**	100%	2008	2008	U.A.E.	General trading
Borealis Gulf FZC	**100%**	100%	2010	2010	U.A.E.	Investment & Real estate development activities
BOS Funding Limited	**100%**	100%	2015	2015	Cayman Islands	Financing activities
Muwaileh Capital FZC	**90%**	90%	2010	2017	U.A.E.	Developing of real estate & related activities
BOS Repos Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities
BOS Derivatives Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities
GTW Holding LTD	**100%**	-	2022	-	U.A.E. (ADGM)	Facilitate the sale of real estate assets
GDLR Holding LTD	**100%**	-	2022	-	U.A.E. (ADGM)	Facilitate the sale of real estate assets
BOS Real Estate Egypt	**100%**	100%	2023	-	Egypt	Real estate development activities

3. Application of other new and revised International Financial Reporting Standards ("IFRS")

3.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial information

The following are the new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in this interim financial information. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods.

Narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 9 and IFRS 16

Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations; Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss; Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be lossmaking; and annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

3. Application of other new and revised International Financial Reporting Standards ("IFRS") (continued)

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

Amendments to IAS 1, Presentation of financial statements on classification of liabilities - These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability - Deferred until accounting periods starting not earlier than 1 January 2024.

Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction - These amendments require companies to recognize deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences - Effective for annual periods beginning on or after 1 January 2023.

Amendments to IAS 1, 'Presentation of financial statements' IFRS Practice statement 2 and IAS 8, 'Accounting policies, changes in accounting estimates and errors' - The IASB amended IAS 1, 'Presentation of Financial Statements', to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, the Board also amended IFRS Practice Statement 2, 'Making Materiality Judgements', to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendment to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period - Effective for annual periods beginning on or after 1 January 2023.

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

4. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2022.

5 Financial instruments

5.1 Recognition and Initial Measurement

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities respectively, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in consolidated statement of profit or loss.

5 Financial instruments (continued)

5.2 Classification of financial assets

Balances with central banks, due from banks and financial institutions, financial assets and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition). IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at amortised cost

The effective interest rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective interest rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition. Income is recognised in the consolidated statement of profit or loss on an effective interest rate basis for financing and investing instruments measured subsequently at amortised cost.

Financial assets measured at FVTPL

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates fair value through other comprehensive income (FVTOCI) at initial recognition. Financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate it as at FVTPL at initial recognition, are measured at FVTPL. Financial assets (other than equity instruments) may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets (other than equity instruments) designated as at FVTPL at initial recognition is not permitted.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss.

5 Financial instruments (continued)

5.2 Classification of financial assets (continued)

Financial assets measured at FVTOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments fair value reserve is not transferred to consolidated statement of profit or loss.

5.3 Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

ECLs 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 arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR);

- 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.

5 Financial instruments (continued)

5.3 Measurement of ECL (continued)

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 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 structure of the following variables:
- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD)

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

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1, if certain criteria are met, if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD [stage 1] and lifetime PD [stage 2].

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations)

5 Financial instruments (continued)

5.3 Measurement of ECL (continued)

Assessment of significant increase in credit risk (continued)

The Group uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- quantitative indicators
- a backstop of 30 days past due.

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. 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.

- Significant decrease in credit risk will be upgraded stage-wise (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 instalments (for quarterly instalments) have been made or 12 months (for instalments longer than quarterly) curing period is met.

Definition of default

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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 Bank 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 Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: (as a deduction from the gross carrying amount of the assets);
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the statement of profit or loss.

5. Financial instruments (continued)

5.4 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'amortised cost'. The Group initially recognises financial liabilities such as deposits and debt securities issued on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value. Determination is made at initial recognition and is not reassessed. Financial liabilities at FVTPL are stated at fair value, with any gains / losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/ loss recognised in consolidated statement of profit or loss incorporates any interest paid on the financial liability. However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability. In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:
- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities at amortized cost

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

5.5 Estimates and judgements

The preparation of condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

Actual results may differ from these estimates. In preparing this condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited consolidated financial statements as at and for the year ended 31 December 2022.

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

5. Financial instruments (continued)

5.6 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties are reported at valuation based on fair value at the end of the reporting period. The fair value is determined on a periodic basis by independent professional valuers.

Fair value adjustments on investment property are included in the consolidated statement of profit or loss in the period in which these gains or losses arise. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the period of derecognition. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

6. Cash and balances with central banks

The analysis of the Group's cash and balances with central banks is as follows:

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Cash on hand	**43,530**	80,380
Statutory deposits	**131,643**	94,548
Current accounts	**4,227,035**	3,885,803
Certificates of deposits	-	41,524
	4,402,208	4,102,255
Expected credit losses (note 16)	-	(153,148)
	4,402,208	3,949,107

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

Banks abroad	-	180,199
Banks in the U.A.E.	**4,402,208**	3,922,056
	4,402,208	4,102,255
Expected credit losses (note 16)	-	(153,148)
	4,402,208	3,949,107

As per the new UAE regulations, the bank is allowed to draw their balances held in the UAE reserve account, while ensuring that they meet the reserve requirements over 14 days period. Balances with other central banks include mandatory reserves which are available for day-to-day operations only under certain specified conditions.

6. Cash and balances with central banks (continued)

Cash and cash equivalents

For the statement of condensed consolidated interim statement of cash flows, cash and cash equivalents includes:

	30 June 2023 AED'000 (unaudited)	30 June 2022 AED'000 (unaudited)
Cash and balances with central banks (Note 6)	**4,402,208**	3,288,231
Deposits and balances due from banks (Note 7)	**915,590**	260,215
Deposits and balances due to banks (Note 12)	**(185,442)**	(197,415)
Repo borrowings (Note 13)	**(82,622)**	(1,100,000)
	5,049,734	2,251,031
Less: Deposits with central banks and balances due from banks - original maturity more than three month	**(550,950)**	(86,347)
Less: Statutory deposits with central banks (Note 6)	**(131,643)**	(33,088)
	4,367,141	2,131,596

*Approximately AED 4.1 billion of Repo borrowing have not been deducted from cash and cash equivalents as at 30 June 2023. Considering the increase in this Repo borrowing during the current financial year, the underlying substance of the borrowing and nature of the underlying collateral, the Group has classified the proceeds from the Repo borrowing as a cash inflow from financing activities. (Note 13)

7. Deposits and balances due from banks

The analysis of the Group's deposits and balances due from banks is as follows:

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Demand	**351,560**	88,152
Time	**564,030**	27,428
	915,590	115,580
Expected credit losses (note 16)	**(134,936)**	(1,683)
	780,654	113,897

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

Banks abroad	**862,378**	95,706
Banks in the U.A.E.	**53,212**	19,874
	915,590	115,580
Expected credit losses (note 16)	**(134,936)**	(1,683)
	780,654	113,897

8. Loans and advances, net

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Overdrafts	**4,126,733**	4,077,074
Commercial loans	**14,889,981**	14,354,258
Bills discounted	**2,176,681**	2,375,775
Other advances	**2,474,086**	2,591,337
Gross amount of loans and advances net of interest in suspense	**23,667,481**	23,398,444
Less: Expected credit losses (note 16)	**(1,733,007)**	(1,775,177)
Net loans and advances	**21,934,474**	21,623,267

(b) Impairment reserve

In accordance with CBUAE circular 28/2010, in case where provision under CBUAE guidance exceeds provision under IFRS 9, the excess is required to be transferred to impairment reserve. The details of the same are below:

	Bank 30 June 2023 AED'000 (unaudited)	Bank 31 December 2022 AED'000 (audited)
Impairment reserve – Specific		
Specific provisions and interest in suspense under Circular 28/2010 of CBUAE	**1,008,648**	1,008,658
Stage 3 provisions under IFRS 9*	**1,605,542**	1,579,794
Specific provision transferred to the impairment reserve	-	-
Impairment reserve – Collective		
Collective provisions under Circular 28/2010 of CBUAE	**397,561**	398,970
Stage 1 and Stage 2 provisions under IFRS 9*	**193,855**	251,346
Collective provision transferred to the impairment reserve	**203,706**	147,624

As at 30 June 2023, AED 56.082 million are transferred from retained earnings to impairment reserve (30 June 2022: AED 81.191 million are transferred from impairment reserve to retained earnings).

* For the purpose of calculation, the movement in impairment reserve provisions under IFRS 9 are determined based on CB UAE classification of loans and advances, only for the purpose of this disclosure.

8. Loans and advances, net (continued)

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

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Loans and advances resident in the U.A.E.	**22,762,302**	22,331,923
Loans and advances non-resident in Lebanon	**-**	59,545
Loans and advances non-resident others	**905,179**	1,006,976
	23,667,481	23,398,444

9. Investments measured at fair value and amortised cost

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Investments measured at fair value		
Investments measured at FVTPL		
Quoted equity securities	**143,968**	154,367
	143,968	154,367
Investments measured at FVTOCI		
Quoted equity securities	**113,520**	121,717
Unquoted equity securities	**153,317**	157,058
Debt Securities	**-**	3,956
Expected credit losses (note 16)	-	(2,790)
	266,837	279,941
Total investments measured at fair value	**410,805**	434,308
Investments measured at amortised cost		
Debt securities	**7,375,182**	7,343,090
Expected credit losses (note 16)	**(2,921)**	(7,930)
Total investments measured at amortised cost	**7,372,261**	7,335,160
Total Investments	**7,783,066**	7,769,468

All of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market). Included in the debt securities measured at amortised cost are bonds and sukuk with the fair value of AED 5.06 billion (31 December 2022 - AED 6.27 billion) given as collateral against borrowings under repo agreements (Note 13).

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

9. Investments measured at fair value and amortised cost (continued)

The composition of the investment measured at fair value and amortised cost by geography is as follows:

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
United Arab Emirates	**7,648,035**	7,631,762
Middle East (other than G.C.C. countries)	**118,617**	129,093
Europe	**19,335**	19,333
	7,785,987	7,780,188
Expected credit losses (note 16)	**(2,921)**	(10,720)
	7,783,066	7,769,468

10. Other assets

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Acceptances – contra (note 14)	**1,018,391**	1,076,370
Rent receivable	**100,962**	80,085
Interest receivable	**70,142**	56,728
Prepayments	**16,805**	10,431
Others	**85,876**	58,495
	1,292,176	1,282,109
Expected credit loss (note 16)	**(27,964)**	(27,964)
	1,264,212	1,254,145

11. Customers' deposits

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Time deposits	**21,098,728**	21,569,676
Current and other accounts	**4,070,033**	3,575,571
Saving accounts	**115,838**	135,884
	25,284,599	25,281,131

12. Deposits and balances due to banks

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Time	**175,000**	280,000
Demand	**10,442**	382,333
	185,442	662,333

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

Banks in the U.A.E.	**185,442**	293,232
Banks abroad	**-**	369,101
	185,442	662,333

13. Repo borrowing

The analysis of the repo borrowing agreements is as follows:

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Banks in the U.A.E.	**4,132,622**	5,003,552
	4,132,622	5,003,552

The Group entered into repo agreements under which bonds with fair value of AED 5.06 billion (31 December 2022: AED 6.27 billion) were given as collateral against borrowings (note 9). The risks and rewards relating to these bonds remain with the Group. (Note 15)

14. Other liabilities

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Acceptances – contra (note 10)	**1,018,391**	1,076,370
Interest payable	**404,241**	199,409
Unearned income	**148,900**	205,429
Lease liabilities	**68,124**	68,209
Deferred tax liability	**-**	14,088
Provision for employees' end of service benefits	**59,347**	53,155
Managers' cheques	**44,527**	25,357
ECL on unfunded exposure	**32,785**	33,164
Clearing balances	**7,826**	21,341
Accrued expenses	**1,767**	4,523
Others	**37,034**	200,493
	1,822,942	1,901,538

15. Issued Bonds

On 18 September 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 600 million (equivalent to AED 2,204 million) for a five-year maturity at mid swaps plus 250 basis points, to yield 4.015%, classified at amortized cost. The Notes were issued under the Bank's EMTN Programme which is listed on the Irish Stock Exchange.

On 29 November 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling CHF 100 million (equivalent to AED 401 million) for a four-year maturity at mid swaps plus 205 basis points, to yield 1.4575%, classified at amortized cost. The Notes are listed on the SIX Swiss Exchange and were issued under the Bank's EMTN Programme.

On 28 February 2022, the Bank issued Senior Unsecured Fixed Rate Notes 2.85%, totalling USD 125 million (equivalent to AED 459.125 million) for a one-year maturity, classified at amortized cost. The Notes were issued under the EMTN Programme.

On 14 March 2023, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836.5 million) for a five-year maturity at a coupon of 7%, classified at amortized cost. The Notes were issued under the Bank's EMTN Programme which is listed on the Irish Stock Exchange.

The General Assembly on 4 May 2023 authorised a renewal of the Bank's EMTN programme of USD 2.5 billion.

16. Net impairment loss on financial assets and credit risk

Allocation of impairment loss as of 30 June 2023 and 31 December 2022 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 30 June 2023 (unaudited)				
Cash and balances with central banks	-	-	-	-
Deposits and balances due from banks	**2,715**	**9**	**132,212**	**134,936**
Loans and advances	**48,762**	**1,298,005**	**386,240**	**1,733,007**
Investments	**2,921**	-	-	**2,921**
Unfunded exposure	**4,673**	**26,700**	**1,412**	**32,785**
Other assets	**27,964**	-	-	**27,964**
Total	**87,035**	**1,324,714**	**519,864**	**1,931,613**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2022 (audited)				
Cash and balances with central banks	-	1,080	152,068	153,148
Deposits and balances due from banks	1,463	220	-	1,683
Loans and advances	80,771	1,297,614	396,792	1,775,177
Investments	3,784	-	6,936	10,720
Unfunded exposure	14,610	17,164	1,389	33,163
Other assets	27,964	-	-	27,964
Total	**128,592**	**1,316,078**	**557,185**	**2,001,855**

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

16. Net impairment loss on financial assets and credit risk (continued)

The movement in impairment loss by financial asset category during the period ended 30 June 2023 is as follows:

	Opening balance AED'000	Subsidiary held for sale opening balance adjustment AED'000	Opening balance (Adjusted) AED'000	Net charge/ (reversal) during the period AED'000	Write off during the period AED'000	Closing balance AED'000
Cash and balances with central banks	153,148	(20,936)	132,212	(132,212)	-	-
Deposits and balances due from banks	1,683	(7)	1,676	133,260	-	134,936
Loans and advances	1,775,177	(10,576)	1,764,601	(12,590)	(19,004)	1,733,007
Investments	10,720	(6,936)	3,784	(863)	-	2,921
Unfunded exposure	33,163	(44)	33,119	(334)	-	32,785
Other assets	27,964	-	27,964	-	-	27,964
Total	2,001,855	(38,499)	1,963,356	(12,739)	(19,004)	1,931,613
Direct Recoveries				9,866		
Net impairment reversal/(charge) on financial assets				(2,873)		

The movement in impairment loss by financial asset category during the period ended 30 June 2022 is as follows:

	Opening balance AED'000	Net charge / (reversal) during the year AED'000	Recoveries net of write off during the year AED'000	Currency translation effect AED'000	Closing balance AED'000
Cash and balances with central banks	170,048	210	-	(3,785)	166,473
Deposits and balances due from banks	2,330	(1,003)	-	-	1,327
Reverse-repo placements	-	-	-	-	-
Loans and advances	2,006,910	140,496	13,664	(1,058)	2,160,012
Investments	17,299	1,514	-	(1,160)	17,653
Unfunded exposure	22,919	(2,933)	-	(5)	19,981
Other assets	27,964	-	-	-	27,964
	2,247,470	138,284	13,664	(6,008)	2,393,410

17. Commitments and contingent liabilities

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Financial guarantees for loans	213,485	217,462
Other guarantees	1,427,274	1,370,661
Letters of credit	433,521	321,966
	2,074,280	1,910,089
Irrevocable commitments to extend credit	780,409	1,218,184
	2,854,689	3,128,273

18. Related party balances

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24 Related Party Disclosures. Related parties comprise companies under common ownership and/or common management and control, their shareholders and key management personnel. Transactions with associate and other related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties. Transactions within the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The related parties' balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Loans and advances	**737,424**	770,011
Letters of credit, guarantee and acceptances	**556**	556
	737,980	770,567
Collateral deposits	**102**	100
Expected Credit Loss	**2,004**	2,944
Net exposure	**735,874**	767,523
Other deposits	**4,656,419**	4,669,605

	Six-months period ended 30 June	
	2023 AED'000 (unaudited)	2022 AED'000 (unaudited)
Interest income	**33,389**	23,397
Interest expense	**48,767**	39,855

Compensation of key management personnel:	**Six-months period ended 30 June**	
	2023 AED'000	2022 AED'000
Short term benefits	**8,083**	8,280
End of service benefits	**609**	427
Total compensation	**8,692**	8,707

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

19. Losses per share

Losses per share are computed by dividing the losses for the period by the weighted average number of shares outstanding during the period as follows:

	Six-month period ended 30 June	
	2023 (unaudited)	2022 (unaudited)
Basic losses per share		
Loss attributable to owners of the Bank for the period (AED'000)	**(143,251)**	(195,332)
Loss available to the owners of the Bank (AED'000)	**(143,251)**	(195,332)
Weighted average number of ordinary shares:		
Ordinary shares at the beginning of the period	**2,200,000**	2,200,000
Weighted average number of shares outstanding during the period (in thousands share)	**2,222,222**	2,200,000
Basic loss per share (AED)	**(0.065)**	(0.089)

As at 30 June 2023 and 30 June 2022, there were no potential dilutive shares outstanding.

The AGM held on 4 May 2023 approved the increase of the Bank's capital by issuing 800 million shares at the value of one-dirham (1) per share, at an issuance price of one-dirham (1) per share, at a total issuance amount of AED 800 million in favour of the Government of Sharjah represented by Sharjah Asset Management as a strategic shareholder, which raises its shareholding in the Bank from 17.16% to about 40% so that capital aggregates to AED 3 Billion.

20. Segmental information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For operating purposes, the Group is organised into two major business segments:

(i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and

(ii) Investment Banking, which involves the management of the Group's investment portfolio.

These segments are the basis on which the Group reports its segment information. Transactions between segments are conducted at rates determined by management, taking into consideration the cost of funds and an equitable allocation of expenses.

The following table presents information regarding the Group's operating segments:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
30 June 2023 (unaudited):				
Segment assets	**28,980,517**	**8,941,175**	**1,605,768**	**39,527,460**
Segment liabilities	**30,621,053**	**4,423,880**	**804,552**	**35,849,485**

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

20. Segmental information (continued)

31 December 2022 (audited):

Segment assets	26,896,320	8,815,952	1,690,059	37,402,331
Segment liabilities	32,023,386	3,059,421	825,168	35,907,975

The following table presents information regarding the Group's operating segments for the six-month period ended 30 June 2023 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated* AED'000	Total AED'000
Revenue from external customers				
-Net interest income	45,170	54,036	-	99,206
-Net fee and commission income	115,978	-	-	115,978
-Exchange profit	7,483	-	-	7,483
-Income on investments	-	172	-	172
-Net loss on properties	-	(5,250)	-	(5,250)
-Other income	3,171	3,247	-	6,418
Operating income	171,802	52,205	-	224,007
Other material non-cash items				
-Net impairment (loss)/reversal on financial assets	(48)	2,921	-	2,873
-Depreciation of property and equipment	-	-	(13,822)	(13,822)
-General and administrative expenses	(118,514)	(20,901)	-	(139,415)
-Impairment of intangible assets	-	(18,365)	-	(18,365)
-Net impairment charge on assets held for sale	-	(199,153)	-	(199,153)
Profit/(loss) for the period	53,240	(183,293)	(13,822)	(143,875)

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

20. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the six-month period ended 30 June 2022 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated* AED'000	Total AED'000
Revenue from external customers				
-Net interest income	183,101	43,177	-	226,278
-Net fee and commission income	86,638	-	-	86,638
-Exchange gain	20,629	-	-	20,629
-Income on investments	-	29,217	-	29,217
-Net loss on properties	-	(6,412)	-	(6,412)
-Other income	797	2,840	-	3,637
Operating income	**291,165**	**68,822**	**-**	**359,987**
Other material non-cash items				
-Net impairment loss on financial assets	(140,059)	1,775	-	(138,284)
-Loss on monetary position	-	-	(287,166)	(287,166)
-Depreciation of property and equipment	-	-	(16,657)	(16,657)
-General and administrative expenses	(94,525)	(16,681)	-	(111,206)
-Amortization of intangible assets	-	-	(583)	(583)
-Income tax expense– overseas	-	-	(1,581)	(1,581)
Profit/(loss) for the period	**56,581**	**53,916**	**(305,987)**	**(195,490)**

** Unallocated items comprise mainly head office expenses and tax assets and liabilities of the overseas subsidiary*

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (30 June 2022: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for the purpose of resource allocation. The accounting policies of the reportable segments are the same as the Group's accounting policies as disclosed in the consolidated financial statements for the year ended 31 December 2022. For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign'). The Group's revenue from external customers by geographical location are detailed below:

2023	Country of domicile AED'000	Foreign AED'000	Total AED'000
Operating income (from external customers) for the six-month period ended 30 June 2023 (unaudited)	**224,007**	**-**	**224,007**
2022			
Operating income (from external customers) for the six-month period ended 30 June 2022 (unaudited)	355,175	4,812	359,987

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

21. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Investments held at fair value through profit and loss - Investments held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investments listed equity securities for which the fair values are based on quoted prices at close of business as of 30 June 2023, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

Unquoted investments held at fair value through other comprehensive income - The condensed consolidated interim financial information includes holdings in unquoted securities amounting to AED 153 million (31 December 2022: AED 157 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on comparable ratios backed by discounted cash flow analysis depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 8 million (31 December 2022: AED 8 million). The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial instruments carried at amortised cost - Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the condensed consolidated interim financial information approximates their fair values.

		30 June 2023		31 December 2022	
	Level	**Carrying amount AED'000**	**Fair value AED'000**	Carrying amount AED'000	Fair value AED'000
Financial assets					
- Investments measured at amortised cost	**3**	**7,372,261**	**7,371,614**	7,335,160	7,377,598
- Loans and advances	**3**	**21,934,474**	**21,934,474**	21,623,267	21,623,267
Financial liabilities					
- Customers' deposits	**2**	**25,284,599**	**25,284,599**	25,281,131	25,281,131
- Issued Bonds	**2**	**4,423,880**	**4,426,402**	3,059,421	2,943,778

The fair value for other financial assets measured at amortized cost is based on market prices.

21. Fair value of financial instruments (continued)

Fair value measurements recognised in the condensed consolidated interim statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are ranked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 30 June 2023 (unaudited)				
Investments measured at fair value				
Investment measured at FVTPL				
Quoted equity	**143,968**	**-**	**-**	**143,968**
Investments carried at FVTOCI				
Quoted equity	**113,520**	**-**	**-**	**113,520**
Unquoted equity	**-**	**-**	**153,317**	**153,317**
Total	**257,588**	**-**	**153,317**	**410,805**
Other assets /liabilities				
Positive fair value of derivatives	**-**	**6,053**	**-**	**6,053**
At 31 December 2022 (audited)				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	154,367	-	-	154,367
Investments carried at FVTOCI				
Quoted equity	121,717	-	-	121,717
Unquoted equity	-	-	157,058	157,058
Unquoted debt securities	-	1,166	-	1,166
Total	276,084	1,166	157,058	434,308
Other assets /liabilities				
Positive fair value of derivatives	-	6,388	-	6,388

There were no transfers between Level 1 and Level 2 during the current period.

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

21. Fair value of financial instruments (continued)

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

	30 June 2023 AED'000	31 December 2022 AED'000
Opening balance	**157,058**	171,592
Subsidiary held for sale opening balance adjustment (note 2.1)	**(67)**	-
Other movements	**(3,674)**	(14,534)
Closing balance	**153,317**	157,058

22. Capital adequacy

Basel III

The capital adequacy ratios are computed based on circulars issued by the Central Bank of UAE and based on a specific exception received from the Central Bank of the UAE considering the currency translation reserve resulting from the change in the Lebanese official rate from LBP 1507.5 to LBP 15,000 on 28 February 2023. The Group has complied with all the externally imposed capital requirements.

	Basel III	
	30 June 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Capital base		
Tier 1 capital	**4,003,001**	3,247,735
Tier 2 capital	**331,302**	371,057
Total capital base	**4,334,303**	3,618,792
Risk-weighted assets:		
Credit risk	**26,504,127**	29,684,588
Market risk	**293,482**	336,096
Operational risk	**1,407,793**	1,407,793
Total risk-weighted assets	**28,205,402**	31,428,477
Capital ratios		
Common equity Tier 1 capital ratio	**14.19%**	10.33%
Tier 1 capital ratio	**14.19%**	10.33%
Total capital ratio	**15.37%**	11.51%

Have the Group included the impact of the currency translation reserve resulting from the change in the Lebanese official rate from LBP 1507.5 to LBP 15,000 for the purpose of computing capital adequacy ratios, the common equity Tier 1, Tier 1 capital and total capital ratios would have dropped to 12.82%, 12.82% and 14.00% respectively.

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

23. Risk management

Stage migration for the six-month period ended 30 June 2023

Scope: All clients

Migration during the period

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking loans								
As of 1 January 2023	1,860,764	7,752	4,276	46	22,223	371	1,887,263	8,169
Subsidiary held for sale opening balance adjustment (note 2.1)	(390)	(50)	-	(1)	(162)	(146)	(552)	(197)
As of 1 January 2023 (adjusted)	1,860,374	7,702	4,276	45	22,061	225	1,886,711	7,972
Transfers from stage 1 to stage 2	(4,937)	-	4,937	-	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	(5,609)	-	(165)	-	5,774	-	-	-
Transfers from stage 3	17	-	-	-	(17)	-	-	-
Change in exposure	934,566	(3,070)	(3,095)	(15)	1,911	111	933,382	(2,974)
As of 30 June 2023	2,784,411	4,632	5,953	30	29,729	336	2,820,093	4,998
Wholesale banking loans								
As of 1 January 2023	10,223,096	73,019	10,007,034	1,297,568	1,281,051	396,421	21,511,181	1,767,008
Subsidiary held for sale opening balance adjustment (note 2.1)	(33,173)	(103)	(11,437)	(1,683)	(14,482)	(8,594)	(59,092)	(10,380)
As of 1 January 2023 (adjusted)	10,189,923	72,916	9,995,597	1,295,885	1,266,569	387,827	21,452,089	1,756,628
Transfers from stage 1 to stage 2	(694,621)	(23,907)	694,621	23,907	-	-	-	-
Transfers from stage 2 to stage 1	133,315	3,170	(133,315)	(3,170)	-	-	-	-
Transfers from 1&2 to stage 3	(41,061)	(5)	(15,443)	(581)	56,504	586	-	-
Transfers from stage 3	-	-	-	-	-	-	-	-
Change in exposure	(443,730)	(8,044)	(335,239)	(18,066)	174,268	(2,509)	(604,701)	(28,619)
As of 30 June 2023	9,143,826	44,130	10,206,221	1,297,975	1,497,341	385,904	20,847,388	1,728,009
Total	11,928,237	48,762	10,212,174	1,298,005	1,527,070	386,240	23,667,481	1,733,007

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

23. Risk management (continued)

Stage migration for the six-month period ended 30 June 2022

Scope: All clients
Migration during the period

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking loans								
As of 1 January 2022	910,804	1,458	9,019	23	9,094	219	**928,917**	**1,700**
Transfers from stage 1 to stage 2	-	-	-	-	-	-	-	-
Transfers from stage 2 to stage 1	390	-	(390)	-	-	-	-	-
Transfers from 1&2 to stage 3	(3,463)	-	(8,339)	-	11,802	-	-	-
Transfers from stage 3	31	-	-	-	(31)	-	-	
Change in exposure	(10,418)	263	109	4	654	110	**(9,655)**	**377**
Currency translation effect	(125)	(8)	-	-	(23)	(20)	**(148)**	**(28)**
As of 30 June 2022	**897,219**	**1,713**	**399**	**27**	**21,496**	**309**	**919,114**	**2,049**
Wholesale banking loans								
As of 1 January 2022	11,966,122	69,412	8,916,103	1,168,399	1,509,815	767,399	**22,392,040**	**2,005,210**
Transfers from stage 1 to stage 2	(165,820)	(691)	165,820	691	-	-	-	-
Transfers from stage 2 to stage 1	3,187	60	(3,187)	(60)	-	-	-	-
Transfers from 1&2 to stage 3	(120)	-	(22,545)	(787)	22,665	787	-	-
Transfers from stage 3	-	-	43,950	7,018	(43,950)	(7,018)	-	-
Change in exposure	(454,047)	29,910	435,711	25,617	16,252	98,818	**(2,084)**	**154,345**
Currency translation effect	(3,869)	(4)	(3,768)	(458)	(1,486)	(1,130)	**(9,123)**	**(1,592)**
As of 30 June 2022	**11,345,453**	**98,687**	**9,532,084**	**1,200,420**	**1,503,296**	**858,856**	**22,380,833**	**2,157,963**
Total	**12,242,672**	**100,400**	**9,532,483**	**1,200,447**	**1,524,792**	**859,165**	**23,299,947**	**2,160,012**

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

23. Risk management (continued)

ECL charge/(flow) for the six-month period ended 30 June 2023

Scope: All clients

	Non-credit impaired		Credit Impaired	
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Retail banking loans:				
ECL allowance as of 1 January 2023	7,752	46	371	8,169
Subsidiary held for sale opening balance adjustment (note 2.1)	(50)	(1)	(146)	(197)
ECL allowance as of 1 January 2023 (adjusted)	7,702	45	225	7,972
Others	(3,070)	(15)	111	(2,974)
ECL allowance as of 30 June 2023	**4,632**	**30**	**336**	**4,998**
Wholesale banking loans:				
ECL allowance as of 1 January 2023	73,019	1,297,568	396,421	1,767,008
Subsidiary held for sale opening balance adjustment (note 2.1)	(103)	(1,683)	(8,594)	(10,380)
ECL allowance as of 1 January 2023 (adjusted)	72,916	1,295,885	387,827	1,756,628
Emirates governments	(317)	-	-	(317)
GREs (Gov ownership >50%)	(281)	-	-	(281)
Other corporates	(23,613)	14,760	27	(8,826)
High net worth individuals	(224)	(20,738)	2,272	(18,690)
SMEs	(4,351)	8,068	(4,222)	(505)
ECL allowance as of 30 June 2023	**44,130**	**1,297,975**	**385,904**	**1,728,009**
	48,762	**1,298,005**	**386,240**	**1,733,007**

ECL charge/(flow) for the six-month period ended 30 June 2022

Scope: All clients

	Non-credit Impaired		Credit impaired	
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Retail banking loans:				
ECL allowance as of 1 January 2022	1,458	23	219	1,700
Others	263	4	110	377
Currency translation effect	(8)	-	(20)	(28)
ECL allowance as of 30 June 2022	**1,713**	**27**	**309**	**2,049**
Wholesale banking loans:				
ECL allowance as of 1 January 2022	69,412	1,168,399	767,399	2,005,210
Emirates governments	(2,507)	-	-	(2,507)
GREs (Gov ownership >50%)	(3,484)	-	-	(3,484)
Other corporates	41,855	(5,609)	79,223	115,469
High net worth individuals	(1,957)	32,550	6,101	36,694
SMEs	(4,625)	5,526	6,730	7,631
Others	(3)	14	533	544
Currency translation effect	(4)	(460)	(1,130)	(1,594)
ECL allowance as of 30 June 2022	**98,687**	**1,200,420**	**858,856**	**2,157,963**
	100,400	**1,200,447**	**859,165**	**2,160,012**

Notes to the condensed consolidated interim financial information for the six-month period ended 30 June 2023 (continued)

24. Corporate tax

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime is effective from 1 June 2023 and accordingly, it has an income tax related impact on the financial statements for accounting periods beginning on or after 1 June 2023.

The Cabinet of Ministers Decision No. 116 of 2022 specifies the threshold of income over which the 9% tax rate would apply and accordingly, the Law is now considered to be substantively enacted from the perspective of IAS 12 - Income Taxes. A rate of 9% will apply to taxable income exceeding AED 375,000 and a rate of 0% will apply to taxable income not exceeding AED 375,000 and a rate of 0% on qualifying income of free zone entities.

The Group will be subject to taxation commencing 1 January 2024.

25. Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the six-month period ended 30 June 2023 and 30 June 2022.

26. Subsequent events

There are no material subsequent events have occurred that require adjustment to, or disclosure in, the interim financial statements.