

Ajman Bank PJSC

**Review report and
interim financial information
for the six month period ended
30 June 2019**

Ajman Bank PJSC

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Ajman Bank PJSC
Ajman
United Arab Emirates

Introduction

We have reviewed the accompanying condensed statement of financial position of **Ajman Bank PJSC** (the “Bank”), as at 30 June 2019, and the related condensed income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34: *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410: “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”. A review of 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 interim financial information is not prepared, in all material respects in accordance with IAS 34.

Deloitte & Touche (M.E.)



Akbar Ahmad
Registration No. 1141
Dubai
United Arab Emirates
5 August 2019

**Condensed statement of financial position
As at 30 June 2019**

	Notes	30 June 2019 (unaudited) AED'000	31 December 2018 (audited) AED'000
ASSETS			
Cash and balances with the Central Bank	6	3,426,797	2,558,366
Due from banks and other financial institutions		810,128	761,711
Islamic financing and investing assets, net	7	16,831,148	16,304,026
Islamic investments securities at fair value	8	1,741,610	1,892,608
Investment in associate	9	73,500	-
Investment properties	10	345,236	658,131
Property and equipment		122,016	120,822
Other Islamic assets	11	335,042	349,061
Total assets		23,685,477	22,644,725
LIABILITIES AND EQUITY			
Liabilities			
Islamic customers' deposits	12	17,615,704	17,203,533
Due to banks and other financial institutions		3,157,831	2,648,722
Other liabilities	13	390,757	345,622
Total liabilities		21,164,292	20,197,877
Equity			
Share capital	14	2,100,000	2,100,000
Statutory reserve		244,728	244,728
Investment fair value reserve		(1,892)	(64,325)
General impairment reserve	15	48,056	-
Specific impairment reserve	16	30,401	-
Retained earnings		99,892	166,445
Total equity		2,521,185	2,446,848
Total liabilities and equity		23,685,477	22,644,725



H.E. Sheikh Ammar Bin Humaid Al Nuaimi
Chairman



Mohamed Abdulrahman Amiri
Chief Executive Officer

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

**Condensed income statement (unaudited)
for the six month period ended 30 June 2019**

	Notes	Three month period ended 30 June		Six month period ended 30 June	
		2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Operating income					
Income from Islamic financing and investing assets	17	246,884	204,563	488,245	398,341
Income from investment securities		37,454	11,278	61,868	35,108
Fees, commissions and other income		35,294	30,830	79,940	59,891
Total operating income before depositors' share of profit		319,632	246,671	630,053	493,340
Depositors' share of profit		(162,246)	(118,680)	(318,590)	(223,341)
Net operating income		157,386	127,991	311,463	269,999
Expenses					
Staff costs		(52,716)	(47,017)	(110,907)	(99,548)
General and administrative expenses		(16,120)	(14,728)	(30,344)	(29,750)
Impairment charge for financial assets	18	(40,062)	(17,197)	(75,155)	(53,518)
Depreciation of property and equipment		(3,425)	(4,064)	(7,153)	(8,182)
Total expenses		(112,323)	(83,006)	(223,559)	(190,998)
Profit for the period		45,063	44,985	87,904	79,001
Earnings per share (AED)	19	0.021	0.027	0.041	0.046

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

**Condensed statement of other comprehensive income (unaudited)
for the six month period ended 30 June 2019**

	Three month period ended 30 June		Six month period ended 30 June	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Profit for the period	45,063	44,985	87,904	79,001
Other comprehensive income/(loss):				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Movement in investment fair value reserve for equity instruments at FVTOCI	2,520	-	(6,660)	-
	<u>2,520</u>	<u>-</u>	<u>(6,660)</u>	<u>-</u>
<i>Items that may be reclassified subsequently to profit or loss</i>				
Fair value gain/(loss) on investment securities at FVTOCI - sukuk instruments	27,686	(23,315)	75,721	(60,961)
Reclassification adjustments relating to investments securities at FVTOCI	(5,214)	220	(6,628)	1,714
	<u>22,472</u>	<u>(23,095)</u>	<u>69,093</u>	<u>(59,247)</u>
Other comprehensive income/(loss)	24,992	(23,095)	62,433	(59,247)
Total comprehensive income for the period	70,055	21,890	150,337	19,754

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

**Condensed statement of changes in equity
for the six month period ended 30 June 2019**

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	General impairment reserve AED'000	Specific impairment reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2018 (audited)	1,680,323	227,725	(65,206)	-	-	267,616	2,110,458
Impact of adopting IFRS 9 at 1 January 2018	-	-	42,960	-	-	(190,481)	(147,521)
Restated balance at 1 January 2018	1,680,323	227,725	(22,246)	-	-	77,135	1,962,937
Profit for the period	-	-	-	-	-	79,001	79,001
Other comprehensive loss	-	-	(59,247)	-	-	-	(59,247)
Total comprehensive loss for the period	-	-	(59,247)	-	-	79,001	19,754
Dividends (Note 14)	-	-	-	-	-	(58,811)	(58,811)
Directors' remuneration (Note 14)	-	-	-	-	-	(2,500)	(2,500)
At 30 June 2018 (unaudited)	1,680,323	227,725	(81,493)	-	-	94,825	1,921,380
At 1 January 2019 (audited)	2,100,000	244,728	(64,325)	-	-	166,445	2,446,848
Profit for the period	-	-	-	-	-	87,904	87,904
Other comprehensive income	-	-	62,433	-	-	-	62,433
Total comprehensive income for the period	-	-	62,433	-	-	87,904	150,337
Transfer to impairment reserve (Note 15 and 16)	-	-	-	48,056	30,401	(78,457)	-
Dividends (Note 14)	-	-	-	-	-	(73,500)	(73,500)
Directors' remuneration (Note 14)	-	-	-	-	-	(2,500)	(2,500)
At 30 June 2019 (unaudited)	2,100,000	244,728	(1,892)	48,056	30,401	99,892	2,521,185

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

**Condensed statement of cash flows (unaudited)
for the six month period ended 30 June 2019**

	Six month period ended 30 June	
	2019	2018
	AED'000	AED'000
Cash flows from operating activities		
Profit for the period	87,904	79,001
<i>Adjustments for:</i>		
Depreciation of property and equipment	7,153	8,182
Impairment charge on financial assets	75,155	53,518
Income from investment securities	(53,236)	(36,920)
Impairment of property and equipment	28	545
Realized (gain)/loss on disposal of investment securities	(8,632)	1,812
Gain on disposal of property and equipment	-	(25)
Operating cash flows before changes in operating assets and liabilities	108,372	106,113
<i>Changes in operating assets and liabilities</i>		
Increase in Islamic financing and investing assets	(603,568)	(780,958)
Decrease/(increase) in due from banks and other financial institutions	106,764	(27,188)
Increase in statutory deposit with the Central Bank	(100,748)	(41,979)
Decrease/(increase) in other assets	13,578	(44,600)
Increase in Islamic customers' deposits	412,171	328,913
Increase in due to banks and other financial institutions	509,109	530,240
Increase/(decrease) in other liabilities	48,463	(7,690)
Payment of Directors' remuneration	(2,500)	(2,500)
Net cash generated from operating activities	491,641	60,351
Cash flows from investing activities		
Purchase of investment securities	(735,552)	(261,306)
Proceeds from sale of investment securities	954,475	123,039
Investment in associate	(73,500)	-
Purchase of property and equipment	(8,375)	(20,858)
Proceeds from disposal of property and equipment	-	76
Profit income on investment securities	54,371	44,030
Additions to investment properties	(14,105)	(18,613)
Proceeds from disposal of investment properties	327,000	-
Net cash generated from/(used in) investing activities	504,314	(133,632)
Cash flows from financing activities		
Dividends paid	(73,500)	(58,811)
Net cash used in financing activities	(73,500)	(58,811)
Net increase/(decrease) in cash and cash equivalents	922,455	(132,092)
Net cash and cash equivalents at the beginning of the period	2,248,127	971,758
Cash and cash equivalents at the end of the period (Note 6)	3,170,582	839,666

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

Notes to the condensed financial statements for the six months period ended 30 June 2019

1. Legal status and activities

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

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

The principal activities of the Bank are to undertake banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Mudarba, Musharika, Wakala, Sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia’a principles and within the provisions of its Memorandum and Articles of Association.

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

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these condensed financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.
- IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
 - Whether tax treatments should be considered collectively;
 - Assumptions for taxation authorities' examinations;
 - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
 - The effect of changes in facts and circumstances.
- IFRS 16 *Leases* specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
- Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendments to IAS 19 *Employee Benefits* regarding plan amendments, curtailments or settlements.

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

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

2.2 New and revised IFRS in issue but not yet effective

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IAS 1 <i>Presentation of Financial Statements</i> regarding the definition of material.	1 January 2020
Amendments to IFRS 3 <i>Business Combinations</i> to clarify the definition of a business	1 January 2020
<p>The International Accounting Standards Board (IASB) has published its revised 'Conceptual Framework for Financial Reporting'. Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure.</p> <p>Together with the revised Conceptual Framework, the IASB has also issued amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.</p>	
IFRS 17 <i>Insurance Contracts</i>	1 January 2022
<p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2022.</p>	
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)****3. Summary of significant accounting policies**

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

3.1 Basis of preparation

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

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

The accounting policies used in the preparation of these condensed financial statements are consistent with those used in the audited annual financial statements for the year ended 31 December 2018.

These condensed financial statements do not include all the information and disclosure required in full financial statements and should be read in conjunction with the Bank's financial statements for the year ended 31 December 2018. In addition, results for the period from 1 January 2019 to 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

3.2 Financial risk management

The Bank's financial risk management objectives and policies are consistent with those disclosed in the financial statements for the year ended 31 December 2018.

3.3 Seasonality of results

No income of a seasonal nature was recorded in the condensed statement of profit or loss for the six month period ended 30 June 2019 and 30 June 2018.

3.4 Investment property

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

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

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

3. Summary of significant accounting policies (continued)

3.5 Investment in associate

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Bank's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

The Bank discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Bank retains an interest in the former associate and the retained interest is a financial asset, the Bank measures the retained interest at fair value at that date is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. Gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the associate.

Unrealized gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

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

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

In preparing these condensed financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2018, except for the change in business model assessment of certain financial assets explained in note 8.

5. Classification of financial assets and liabilities

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

	At fair value AED'000	Amortised cost AED'000	Total AED'000
At 30 June 2019 (unaudited)			
Financial assets			
Cash and balances with the Central Bank	-	3,426,797	3,426,797
Due from banks and other financial institutions	-	810,128	810,128
Islamic financing and investing assets, net	-	16,831,148	16,831,148
Islamic Investment securities at fair value	1,741,610	-	1,741,610
Other Islamic assets	39	131,012	131,051
Total	1,741,649	21,199,085	22,940,734
Financial liabilities			
Islamic customers' deposits	-	17,615,704	17,615,704
Due to banks and other financial institutions	-	3,157,831	3,157,831
Other liabilities	11	219,243	219,254
Total	11	20,992,778	20,992,789
31 December 2018 (audited)			
Financial assets:			
Cash and balances with the central banks	-	2,558,366	2,558,366
Due from banks and other financial institutions	-	761,711	761,711
Islamic financing and investing assets	-	16,304,026	16,304,026
Islamic investments securities at fair value	1,892,608	-	1,892,608
Other Islamic assets	-	144,337	144,337
Total	1,892,608	19,768,440	21,661,048
Financial liabilities:			
Islamic customers' deposits	-	17,203,533	17,203,533
Due to banks and other financial institutions	-	2,648,722	2,648,722
Other liabilities	1,209	181,189	182,398
Total	1,209	20,033,444	20,034,653

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

6. Cash and balances with the Central Bank

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Cash on hand	79,337	87,443
Balances with the Central Bank:		
Current accounts	57,480	61,691
Reserve requirements with the Central Bank	709,980	609,232
International murabahat with the Central Bank	2,580,000	1,800,000
Total	3,426,797	2,558,366

Cash and cash equivalents included in the condensed statement of cash flows comprise of the following amounts:

	30 June 2019 AED'000 (unaudited)	30 June 2018 AED'000 (unaudited)
Cash and balances with the Central Bank	3,426,797	1,310,954
Due from banks and other financial institutions (original maturity less than three months)	453,765	114,744
	3,880,562	1,425,698
Less: Statutory reserve with the Central Bank	(709,980)	(586,032)
Cash and cash equivalents	3,170,582	839,666

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

7. Islamic financing and investing assets, net

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Islamic financing assets		
Vehicles murabahat	128,454	151,894
Commodities murabahat	6,685,305	6,853,468
Total murabahat	6,813,759	7,005,362
Ijarahs	10,164,594	9,267,637
Istisna'a	32,058	35,826
Islamic credit cards	37,589	39,400
	17,048,000	16,348,225
Deferred income	(933,469)	(990,670)
Total Islamic financing assets	16,114,531	15,357,555

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

7. Islamic financing and investing assets, net (continued)

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Islamic investing assets		
Mudaraba	714,088	932,807
Wakalat	685,031	751,706
Total Islamic investing assets	1,399,119	1,684,513
Total Islamic financing and investing assets	17,513,650	17,042,068
Provisions for impairment (Note 18)	(682,502)	(738,042)
Total Islamic financing and investing assets, net	16,831,148	16,304,026

8. Islamic investment securities at fair value

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Investment securities measured at FVTPL	-	200,130
Investment securities measured at FVTOCI - sukuk instruments	1,470,464	1,692,478
Investment securities measured at FVTOCI - equity instruments	271,146	-
	1,741,610	1,892,608

At 1 January 2019, the Bank reclassified investment securities amounting to AED 200.1 million from FVTPL to FVTOCI as a result of a change in the Bank's business model for managing equity instruments. The Bank has made an irrevocable election, to present these equity instruments at FVTOCI and record any changes in fair value in other comprehensive income.

Fair value hierarchy

Islamic investment securities measured at fair value are set out below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
30 June 2019 (unaudited)				
At FVTOCI				
Sukuk instruments	1,436,036	-	34,428	1,470,464
Equity instruments	72,720	-	198,426	271,146
Total	1,508,756	-	232,854	1,741,610

Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)

8. Islamic investment securities at fair value (continued)

Fair value hierarchy (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2018 (audited)				
At FVTPL				
Equity instruments	79,380	-	120,750	200,130
	<u>79,380</u>	<u>-</u>	<u>120,750</u>	<u>200,130</u>
At FVTOCI				
Sukuk instruments	1,658,050	-	34,428	1,692,478
	<u>1,658,050</u>	<u>-</u>	<u>34,428</u>	<u>1,692,478</u>
Total	<u>1,737,430</u>	<u>-</u>	<u>155,178</u>	<u>1,892,608</u>

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

9. Investment in associate

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

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

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

Movement in investment in associate is as follows:

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
At beginning of the period/year	-	-
Additions during the period/year	73,500	-
Balance at the end of the period/year	<u>73,500</u>	<u>-</u>

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

10. Investment properties

Movement in investment properties is as follows:

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
At beginning of the period/year	658,131	580,448
Additions during the period/year	14,105	43,088
Disposals during the period/year	(327,000)	-
Transfer from property and equipment	-	31,000
Increase in fair value during the period/ year	-	3,595
Balance at the end of the period/year	<u>345,236</u>	<u>658,131</u>

All of the Bank's investment properties are held under free hold interest and located in the U.A.E. The fair value of the Bank's investment properties as at 30 June 2019 is AED 345 million (31 December 2018: AED 658 million). The fair value is mainly based on unobservable market inputs (i.e. Level 3).

The Bank sold investment properties with a consideration of AED 327 million to a related party.

11. Other Islamic assets

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Accrued income on Islamic financing and investing assets	97,630	110,621
Acceptances (Note 13)	95,605	102,678
Assets acquired in settlement of Islamic financing and investing assets	39,016	39,016
Accrued income on Islamic investments securities	20,874	21,940
Prepaid expenses	19,061	18,217
Staff advances (Soft finance)	14,083	12,212
Foreign currency forward contracts	39	-
Other	77,034	72,236
	<u>363,342</u>	<u>376,920</u>
Less: Impairment loss allowance (Note 18)	(28,300)	(27,859)
	<u>335,042</u>	<u>349,061</u>

Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)

12. Islamic customers' deposits

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Current accounts	3,082,130	2,686,661
<i>Mudarba deposits:</i>		
Savings accounts	267,393	202,408
Term deposits	72,507	60,209
	<u>3,422,030</u>	<u>2,949,278</u>
Wakala deposits	14,054,675	13,998,041
Escrow accounts	105,461	191,404
Margin accounts	33,538	64,810
	<u><u>17,615,704</u></u>	<u><u>17,203,533</u></u>

13. Other liabilities

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Accrued profit on Islamic customers' deposits and placements by banks	191,557	152,519
Provisions for staff salaries and benefits	25,373	19,690
Managers' cheques	18,540	26,701
Acceptances (Note 11)	95,605	102,678
Impairment loss allowance (Note 18)	12,208	15,536
Other	47,474	28,498
	<u>390,757</u>	<u>345,622</u>

14. Share capital

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
<i>Issued and fully paid:</i>		
2,100,000,000 (31 December 2018: 2,100,000,000) shares of AED 1 each	2,100,000	2,100,000

At the Annual General Meeting of the shareholders held on 4 March 2019, the shareholders approved cash dividend in respect of the year ended 31 December 2018 at 3.5% (31 December 2017: 3.5%) of the share capital amounting to AED 73.5 million (31 December 2017: 58.8 million). Further AED 2.5 million as Directors' remuneration was also approved (31 December 2017: AED 2.5 million).

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

15. General impairment reserve

In accordance with the requirements of the Central Bank of the U.A.E. the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under IFRS 9 is transferred to 'General impairment reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Bank taken this excess provision through income statement, the profit for the period would have been lower by AED 48.1 million.

16. Specific impairment reserve

In accordance with the requirements of the Central Bank of the U.A.E. the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under IFRS 9 is transferred to 'Specific impairment reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends. Had the Bank taken this excess provision through income statement, the profit for the period would have been lower by AED 30.4 million.

17. Income from Islamic financing and investing assets

	Six month period ended 30 June	
	2019 AED'000 (unaudited)	2018 AED'000 (unaudited)
Income from Ijarah	249,652	194,335
Income from Murabaha	201,068	167,494
Income from Mudaraba	14,240	18,572
Income from Wakala	22,312	16,866
Income from Istisna	973	1,074
	488,245	398,341
	488,245	398,341

18. Impairment allowance

18.1 Allocation of impairment allowance as of 30 June 2019 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
30 June 2019 (unaudited)				
Due from banks and financial institutions	4	27	-	31
Islamic financing and investing assets	38,746	136,247	507,509	682,502
Islamic Investment securities at FVTOCI	4,054	-	50,078	54,132
Other Islamic financial assets	19	1	28,280	28,300
Financial commitments and financial guarantees	4,107	-	8,101	12,208
Total	46,930	136,275	593,968	777,173
	46,930	136,275	593,968	777,173

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

18. Impairment allowance (continued)

18.1 Allocation of impairment allowance as at 31 December 2018 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
31 December 2018 (audited)				
Due from banks and financial institutions	403	37	-	440
Islamic financing and investing assets	60,896	144,885	532,261	738,042
Islamic Investment securities at FVTOCI	2,049	-	50,078	52,127
Other Islamic financial assets	-	1	27,858	27,859
Financial commitments and financial guarantees	7,994	-	7,542	15,536
Total	71,342	144,923	617,739	834,004

18.2 The movement in impairment allowance by financial asset category during the period ended 30 June 2019 is as follows:

	Opening balance AED'000	Net charge during the period AED'000	Write-off, net of recoveries AED'000	Closing balance AED'000	Net charge during the period ended 30 June 2018 AED'000
Due from banks and financial institutions	440	(409)	-	31	-
Islamic financing and investing assets (Note 7)	738,042	76,446	(131,986)	682,502	53,276
Islamic investment securities at FVTOCI	52,127	2,005	-	54,132	(98)
Other Islamic financial assets	27,859	441	-	28,300	340
Financial commitments and financial guarantees	15,536	(3,328)	-	12,208	-
Total	834,004	75,155	(131,986)	777,173	53,518

The credit impairment provisions calculated in accordance with CBUAE requirements were in excess of ECL allowance calculated under IFRS 9 as explained in note 15 and note 16.

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

19. Earnings per share

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

	Three month period ended 30 June		Six month period ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
<i>Basic earnings per share</i>				
Profit for the period (AED'000)	45,063	44,985	87,904	79,001
Directors remunerations (AED'000)	-	-	(2,500)	(2,500)
	<u>45,063</u>	<u>44,985</u>	<u>85,404</u>	<u>76,501</u>
Weighted average number of shares outstanding during the period (in thousands)	<u>2,100,000</u>	<u>1,680,323</u>	<u>2,100,000</u>	<u>1,680,323</u>
Basic earnings per share (AED)	<u>0.021</u>	<u>0.027</u>	<u>0.041</u>	<u>0.046</u>

There were no potentially dilutive shares as at 30 June 2019 and 30 June 2018.

20. Related parties transactions

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

Transactions

Transactions with related parties are shown below:

	Six month period ended					
	30 June 2019 (unaudited)			30 June 2018 (unaudited)		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositors' share of profit	<u>43,410</u>	<u>711</u>	<u>44,121</u>	<u>33,786</u>	<u>646</u>	<u>34,432</u>
Income from Islamic financing and investing assets	<u>24,918</u>	<u>2,542</u>	<u>27,460</u>	<u>18,320</u>	<u>2,241</u>	<u>20,561</u>

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

20. Related parties transactions (continued)

Balances

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

	30 June 2019 (unaudited)			31 December 2018 (audited)		
	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Islamic financing and investing assets	<u>1,931,783</u>	<u>299,500</u>	<u>2,231,283</u>	<u>1,944,144</u>	<u>130,116</u>	<u>2,074,260</u>
Islamic customers' deposits	<u>3,150,014</u>	<u>85,901</u>	<u>3,235,915</u>	<u>3,122,996</u>	<u>109,023</u>	<u>3,232,019</u>

Compensation of key management personnel

Key management compensation is as shown below:

	Six month period ended 30 June	
	2019 AED'000 (unaudited)	2018 AED'000 (unaudited)
Short term employment benefits	<u>9,664</u>	<u>9,928</u>
Terminal benefits	<u>569</u>	<u>558</u>
	<u>10,233</u>	<u>10,486</u>

21. Contingencies and commitments

Capital commitments

At 30 June 2019, the Bank had outstanding capital commitments of AED 30 million (31 December 2018: AED 46 million), which will be funded within the next twelve months.

Credit related commitments and contingencies

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

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

21. Contingencies and commitments (continued)

Credit related commitments and contingencies (continued)

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

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Commitments to extend credit	887,143	1,370,517
Letters of credit	4,498	11,630
Letters of guarantee	367,263	445,330
	<u>1,258,904</u>	<u>1,827,477</u>

22. Segment analysis

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

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

- (i) Consumer, corporate and investment banking, which principally provides finances and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Treasury, which involves the management of the Bank's investment portfolio.

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

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

22. Segment analysis (continued)

Segment results of operations

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

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Others AED'000	Total AED'000
Six month period ended 30 June 2019 (unaudited)						
Net income from Islamic financing and investing assets	45,571	120,261	(4,593)	8,416	-	169,655
Income from Islamic investment securities at fair value	-	-	57,188	4,680	-	61,868
Reversal of/(impairment) charges on financial assets	12,760	(86,654)	(1,182)	(79)	-	(75,155)
Net fee and other income	11,737	41,459	6,032	20,414	298	79,940
Staff cost	(28,234)	(7,139)	(2,190)	(3,644)	(69,700)	(110,907)
General and administrative expenses	(14,020)	(3,985)	(540)	(1,375)	(10,424)	(30,344)
Depreciation of property and equipment	-	-	-	-	(7,153)	(7,153)
Operating profit/(loss) (unaudited)	27,814	63,942	54,715	28,412	(86,979)	87,904
Six month period ended 30 June 2018 (unaudited)						
Net income from Islamic financing and investing assets	46,815	133,951	(13,052)	7,286	-	175,000
Income from investment securities	-	-	33,292	1,816	-	35,108
Impairment charges on financial assets	(7,807)	(43,124)	(2,433)	(154)	-	(53,518)
Net fee and other income	9,365	25,639	1,466	21,909	1,512	59,891
Staff cost	(26,464)	(7,411)	(1,347)	(3,310)	(61,016)	(99,548)
General and administrative expenses	(15,032)	(2,634)	(330)	(31)	(11,723)	(29,750)
Depreciation of property and equipment	-	-	-	-	(8,182)	(8,182)
Operating profit/(loss) (unaudited)	6,877	106,421	17,596	27,516	(79,409)	79,001

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

22. Segment analysis (continued)

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investments AED'000	Others AED'000	Total AED'000
As at 30 June 2019						
Segment assets (unaudited)	<u>3,947,223</u>	<u>12,918,511</u>	<u>4,311,728</u>	<u>1,749,131</u>	<u>758,884</u>	<u>23,685,477</u>
Segment liabilities (unaudited)	<u>3,832,912</u>	<u>13,131,732</u>	<u>2,672,800</u>	<u>1,106,823</u>	<u>420,025</u>	<u>21,164,292</u>
As at 31 December 2018						
Segment assets (audited)	<u>4,056,545</u>	<u>12,337,147</u>	<u>3,752,223</u>	<u>1,990,431</u>	<u>508,379</u>	<u>22,644,725</u>
Segment liabilities (audited)	<u>3,294,304</u>	<u>13,508,213</u>	<u>1,662,429</u>	<u>1,345,786</u>	<u>387,145</u>	<u>20,197,877</u>

**Notes to the condensed financial statements
for the six months period ended 30 June 2019 (continued)**

23. Capital management

The Bank's capital management objectives and policies are consistent with those disclosed in the audited financial statements as at and for the year ended 31 December 2018.

Regulatory capital

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

	30 June 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Tier 1 capital		
Share capital	2,100,000	2,100,000
Reserves	342,728	345,567
	<u>2,442,728</u>	<u>2,445,567</u>
Tier 2 capital		
General provision	192,718	179,785
	<u>192,718</u>	<u>179,785</u>
Total regulatory capital	<u>2,635,446</u>	<u>2,625,352</u>
Risk weighted assets		
Credit risk	15,417,424	14,382,738
Market risk	-	158,760
Operational risk	1,011,148	1,011,148
	<u>16,428,572</u>	<u>15,552,646</u>
Total risk weighted assets	<u>16,428,572</u>	<u>15,552,646</u>
	Minimum requirement	Capital ratios 30 June 2019 (unaudited)
Capital element		Capital ratios 31 December 2018 (audited)
Common equity tier 1 (CET 1) ratio	7%	14.87%
Tier 1 capital ratio	8.5%	15.72%
Capital adequacy ratio	10.5%	16.88%
CET1 available for the buffer requirement	2.5%	6.38%

24. Approval of condensed financial statements

The condensed financial statements were approved by the Board of Directors and authorized for issue on 5 August 2019.