

Bank of Sharjah P.J.S.C.

**Review report and
Condensed consolidated interim financial information
for the six-month period ended 30 June 2016**

Bank of Sharjah P.J.S.C.

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

The Shareholders
Bank of Sharjah P.J.S.C.

Introduction

We have reviewed the accompanying 30 June 2016 condensed interim consolidated financial information of Bank of Sharjah P.J.S.C. ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprises:

- the condensed interim consolidated statement of financial position as at 30 June 2016;
- the condensed interim consolidated statement of profit or loss for the three-month and six-month periods ended 30 June 2016;
- the condensed interim consolidated statement of comprehensive income for the three-month and six-months period ended 30 June 2016;
- the condensed interim consolidated statement of changes in equity for the six-month period ended 30 June 2016;
- the condensed interim consolidated statement of cash flows for the six-month period ended 30 June 2016; and
- notes to the condensed interim consolidated financial information.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2016 condensed interim consolidated financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No: 793
Date:

Condensed consolidated interim statement of financial position

As at

	Notes	30 June 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
ASSETS			
Cash and balances with central banks	7	4,432,563	6,436,195
Deposits and balances due from banks	8	1,330,682	1,072,415
Loans and advances, net	9	15,554,472	15,036,621
Other financial assets measured at fair value	10	1,199,487	1,214,878
Other financial assets measured at amortised cost	10	674,851	527,330
Investment properties		280,305	270,441
Goodwill and other intangibles		230,343	234,234
Other assets	11	2,316,354	2,519,598
Property and equipment		269,935	275,206
Total assets		26,288,992	27,586,918
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	12	18,200,151	19,491,815
Deposits and balances due to banks	13	134,603	45,479
Other liabilities	14	1,364,954	1,689,682
Issued Bonds	15	1,808,181	1,737,498
Total liabilities		21,507,889	22,964,474
Equity			
Capital and reserves			
Share capital		2,100,000	2,100,000
Statutory reserve		1,050,000	1,050,000
Contingency reserve		510,000	480,000
General reserve		100,000	100,000
Investment fair value reserve		210,710	212,432
Retained earnings		604,256	476,485
Equity attributable to equity holders of the Bank		4,574,966	4,418,917
Non-controlling interests		206,137	203,527
Total equity		4,781,103	4,622,444
Total liabilities and equity		26,288,992	27,586,918

.....
Mr. Ahmed Abdalla Al Noman
Chairman

.....
Mr. Mario Tohme
Deputy General Manager

The accompanying notes 1 to 25 form an integral part of these condensed consolidated interim financial statements.

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

	Notes	Three-month period ended 30 June		Six-month period ended 30 June	
		2016	2015	2016	2015
		AED'000	AED'000	AED'000	AED'000
Interest income		276,342	244,968	536,970	484,539
Interest expense		(139,089)	(114,081)	(273,543)	(226,003)
Net interest income		137,253	130,887	263,427	258,536
Net fee and commission income		27,318	31,104	57,771	64,843
Exchange profit		5,556	3,757	11,129	11,161
Income/ (loss) on investments		5,417	5,585	10,055	(348)
Other income		7,804	23,889	20,934	30,310
Operating income		183,348	195,222	363,316	364,502
Net impairment loss on financial assets		(13,599)	(25,733)	(36,499)	(49,299)
Net operating income		169,749	169,489	326,817	315,203
General and administrative expenses		(69,360)	(69,578)	(141,876)	(127,886)
Amortisation of intangible assets		(1,946)	(1,946)	(3,892)	(3,892)
Profit before discontinued operations		98,443	97,965	181,049	183,425
Discontinued operations		-	(5,074)	-	(3,438)
Profit before taxes		98,443	92,891	181,049	179,987
Income tax expense – overseas		(3,391)	(2,425)	(5,379)	(4,361)
Net Profit		95,052	90,466	175,670	175,626
Attributable to:					
Equity holders of the Bank		91,568	88,096	170,239	171,364
Non-controlling interests		3,484	2,370	5,431	4,262
Profit for the period		95,052	90,466	175,670	175,626
		=====	=====	=====	=====
Basic earnings per share (AED)	17	0.044	0.043	0.081	0.083
		=====	=====	=====	=====

The accompanying notes 1 to 25 form an integral part of these condensed consolidated interim financial statements.

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

	Three-month period ended 30		Six-month period ended 30	
	June		June	
	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000
Profit for the period	95,052	90,466	175,670	175,626
Other comprehensive loss items				
<i>Items that will not be reclassified subsequently to condensed consolidated interim statement of profit or loss:</i>				
Net changes in fair value of financial assets measured at fair value through other comprehensive income	6,271	(15,480)	7,691	(27,042)
Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk	(4,406)	-	(9,413)	-
Total other comprehensive income/ (loss) for the period	1,865	(15,480)	(1,722)	(27,042)
Total comprehensive income for the period	96,917	74,986	173,948	148,584
Attributable to:				
Equity holders of the Bank	93,433	72,612	168,517	144,318
Non-controlling interests	3,484	2,374	5,431	4,266
	96,917	74,986	173,948	148,584

The accompanying notes 1 to 25 form an integral part of these condensed consolidated interim financial statements.

**Condensed consolidated interim statement of changes in equity (unaudited)
for the six-month period ended**

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General reserve AED'000	Changes in fair value reserve AED'000	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 2015 (audited)	2,100,000	(196,726)	1,050,000	450,000	100,000	154,009	543,427	4,200,710	211,949	4,412,659
Profit for the period	-	-	-	-	-	-	171,364	171,364	4,262	175,626
Other comprehensive loss	-	-	-	-	-	(27,046)	-	(27,046)	4	(27,042)
Total comprehensive income for the period	-	-	-	-	-	(27,046)	171,364	144,318	4,266	148,584
Shares released from treasury (Note 16)	-	196,726	-	-	-	-	(196,726)	-	-	-
Directors' remuneration (Note 16)	-	-	-	-	-	-	(9,970)	(9,970)	(617)	(10,587)
Charity donations (Note 16)	-	-	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Transfer to/ (from) reserves (Note 16)	-	-	-	30,000	-	-	(30,000)	-	-	-
Dividends (Note 16)	-	-	-	-	-	-	(71,500)	(71,500)	(1,841)	(73,341)
Resale of investments	-	-	-	-	-	-	-	-	(12,515)	(12,515)
Balance at 30 June 2015 (unaudited)	2,100,000	-	1,050,000	480,000	100,000	126,963	404,095	4,261,058	201,242	4,462,300
Balance at 1 January 2016 (audited)	2,100,000	-	1,050,000	480,000	100,000	212,432	476,485	4,418,917	203,527	4,622,444
Profit for the period	-	-	-	-	-	-	170,239	170,239	5,431	175,670
Other comprehensive loss	-	-	-	-	-	(1,722)	-	(1,722)	-	(1,722)
Total comprehensive income for the period	-	-	-	-	-	(1,722)	170,239	168,517	5,431	173,948
Directors' remuneration (Note 16)	-	-	-	-	-	-	(9,968)	(9,968)	(617)	(10,585)
Charity donations (Note 16)	-	-	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Transfer to/ (from) reserves (Note 16)	-	-	-	30,000	-	-	(30,000)	-	-	-
Dividends (Note 16)	-	-	-	-	-	-	-	-	(2,204)	(2,204)
Balance at 30 June 2016 (unaudited)	2,100,000	-	1,050,000	510,000	100,000	210,710	604,256	4,574,966	206,137	4,781,103

The accompanying notes 1 to 25 form an integral part of these condensed consolidated interim financial statements

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

	Note	30 June 2016 AED'000	30 June 2015 AED'000
Cash flows from operating activities			
Profit for the period		175,670	175,626
Adjustments for:			
Depreciation of property and equipment		12,967	11,289
Amortisation of intangible assets		3,892	3,892
Amortisation of Discount/ (premium) on debt instruments		136	91
Gain on sale of investment properties		-	(8,000)
Gain on sale of property and equipment		506	(27)
Profit/ (loss) from investments measured at FVTPL		(10,055)	1,865
Fair value loss on bonds, net		51,604	(14,692)
Fair value gain on interest rate swap, net		(51,604)	10,979
Amortization of transaction costs on issued bonds		6,489	-
Net impairment loss on financial assets		36,499	49,299
Dividends income		(2,291)	-
Operating profit before changes in operating assets and liabilities		223,813	230,322
Increase in deposits and balances due from banks maturing after three months		(115,700)	(201,509)
Increase in statutory deposits with central banks		(28,082)	(73,965)
Increase in loans and advances		(554,350)	(1,428,347)
Decrease/ (increase) in other assets		257,511	(462,004)
(Decrease)/ increase in customers' deposits		(1,291,663)	829,315
(Decrease)/ increase in other liabilities		(326,419)	3,493
Cash used in operating activities		(1,834,890)	(1,102,695)
Payment of directors' remuneration and charity donations		(13,085)	(13,087)
Net cash used in operating activities		(1,847,975)	(1,115,782)
Cash flows from investing activities			
Purchase of property and equipment		(8,474)	(13,193)
Proceeds from sale of property and equipment		270	130
Additions to investment properties		(9,864)	-
Purchase of investments		(304,862)	(138,738)
Proceeds from sale of investments		190,345	91,934
Proceeds from sale of investment properties		-	23,400
Dividends received		2,291	-
Net cash used in investing activities		(130,294)	(36,467)
Cash flows from financing activities			
Dividends paid		-	(69,351)
Issued bonds		-	1,830,851
Syndicated loan		-	(734,600)
Net cash generated from financing activities		-	1,026,900
Net decrease in cash and cash equivalents		(1,978,269)	(125,349)
Cash and cash equivalents at the beginning of the period		5,110,335	3,938,641
Cash and cash equivalents at the end of the period	19	3,132,066	3,813,292

The accompanying notes 1 to 25 form an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements for the six-month period ended 30 June 2016

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 five 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 statements combine the activities of the Bank and its subsidiaries (collectively the "Group").

2. Basis of preparation

The condensed consolidated interim financial statements of the Group are prepared in accordance with the International Accounting Standard No. 34 - Interim Financial Reporting ("IAS 34") issued by the International Accounting Standards Board and also comply with the applicable requirements of the laws in the U.A.E. and U.A.E. Central Bank regulations. UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the UAE Companies Law of 2015 by 30 June 2017 as per the transitional provisions contained therein. The Bank is currently in the process of implementing all changes required by the UAE Companies Law of 2015.

The condensed consolidated interim financial statements are presented in U.A.E. Dirhams (AED) as that is the currency in which the majority of the Group's transactions are denominated.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015.

These condensed consolidated interim financial statements do not include all the information 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 2015. In addition, the results for the period from 1 January 2016 to 30 June 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

3. Application of new and revised International Financial Reporting Standards (IFRSs)

New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> Finalised version of IFRS 9 (IFRS 9 <i>Financial Instruments</i> (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. <p>A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.</p>	1 January 2018

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

**3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)**

New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
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A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

- IFRS 15 Revenue from Contracts with Customers: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers 1 January 2017

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements starting the period beginning 1 January 2017 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

4. Use of estimates and judgements

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

In preparing these condensed consolidated interim financial statements, 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 consolidated financial statements as at and for the year ended 31 December 2015.

5. 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 2015.

6. Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

The condensed consolidated interim financial statements comprise 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.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

6. Basis of consolidation (continued)

All significant inter-group balances, income and expense items are eliminated on consolidation. Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank'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 the equity holders of the Bank.

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

Name of Subsidiary	Proportion of ownership interest		Year of incorporation	Country of incorporation	Principal activities
	2016	2015			
Emirates Lebanon Bank S.A.L.	80%	80%	1965	Lebanon	Financial institution
BOS Real Estate FZC	100%	100%	2009	U.A.E.	Real estate development activities
BOS Capital FZC	100%	100%	2009	U.A.E.	Investment
Polyco General Trading L.L.C.	100%	100%	2008	U.A.E.	General trading
Borealis Gulf FZC	100%	100%	2011	U.A.E.	Investment & Real estate development activities
BOS Funding Limited	100%	100%	2015	Cayman Islands	Financing activities

7. Cash and balances with central banks

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Cash on hand	54,484	68,370
Statutory deposits	1,114,916	1,086,835
Current accounts	730,905	2,147,281
Certificates of deposits	2,532,258	3,133,709
	4,432,563	6,436,195

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

7. Cash and balances with central banks (continued)

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Banks abroad	1,624,368	1,760,984
Banks in the U.A.E.	2,808,195	4,675,211
	4,432,563	6,436,195

The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits with the central banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and USD reserve requirement limit. As at 30 June 2016, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 513 million (31 December 2015: AED 498 million).

8. Deposits and balances due from banks

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Demand	612,917	705,511
Time	234,098	366,904
Reverse-repo placements	483,667	-
	1,330,682	1,072,415

The Bank entered into reverse-repo agreements under which bonds with fair value of AED 488 million (December 31, 2015 -AED Nil) were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties.

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Banks abroad	1,105,576	723,382
Banks in the U.A.E.	225,106	349,033
	1,330,682	1,072,415

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

9. Loans and advances, net

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Overdrafts	9,533,631	8,916,160
Commercial loans	6,315,103	6,131,020
Bills receivable	665,972	789,213
Other advances	862,586	995,513
	<hr/>	<hr/>
Gross amount of loans and advances	17,377,292	16,831,906
Less: Allowance for impairment	(1,536,873)	(1,524,442)
Less: Interest in suspense	(285,947)	(270,843)
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Net loans and advances	15,554,472	15,036,621
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(b) The geographic analysis of the loans and advances of the Group is as follows:

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Loans and advances in the U.A.E.	14,504,733	14,222,200
Loans and advances abroad	2,872,559	2,609,706
	<hr/>	<hr/>
	17,377,292	16,831,906
	<hr/> <hr/>	<hr/> <hr/>

(c) Loans and advances are stated net of allowance for impairment. The movement in the allowance during the period/year was as follows:

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Balance at the beginning of the period/year	1,524,442	1,347,377
(Write-backs)/ additions through collective impairment, net	(734)	1,510
Additions	97,984	386,490
Transfer from interest in suspense	11,000	-
Write-offs	(34,213)	(138,736)
Write-backs	(61,606)	(72,199)
	<hr/>	<hr/>
Balance at the end of the period/year	1,536,873	1,524,442
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**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

10. Other financial assets

(a) The analysis of the Group's other financial assets is as follows:

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	28,370	21,500
Quoted debt securities	38,651	68,604
	<u>67,021</u>	<u>90,104</u>
(ii) Investments measured at FVTOCI		
Quoted equity	111,156	101,800
Unquoted equity	1,021,310	1,022,974
	<u>1,132,466</u>	<u>1,124,774</u>
Total other financial assets measured at fair value	<u>1,199,487</u>	<u>1,214,878</u>
Other financial assets measured at amortised cost		
Debt securities	674,851	527,330
Total other financial assets	<u>1,874,338</u>	<u>1,742,208</u>

The majority of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

(b) The composition of the investment portfolio by geography is as follows:

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
United Arab Emirates	302,877	223,210
G.C.C. countries (other than U.A.E.)	8,893	5,754
Middle East (other than G.C.C. countries)	1,562,456	1,513,132
Europe	112	112
	<u>1,874,338</u>	<u>1,742,208</u>

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

11. Other assets

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Acceptances – contra	1,122,945	1,441,148
Assets acquired in settlement of debt	802,658	798,212
Receivable from sale of investments	203,330	203,330
Clearing receivables	55,045	-
Interest receivable	12,595	20,504
Prepayments	21,316	9,600
Positive fair value of derivatives	54,543	1,945
Other	43,922	44,859
	<u>2,316,354</u>	<u>2,519,598</u>
	=====	=====

12. Customers' deposits

The analysis of customers' deposits is as follows:

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Current and other accounts	4,472,037	4,008,397
Saving accounts	1,725,319	1,634,738
Time deposits	12,002,795	13,848,680
	<u>18,200,151</u>	<u>19,491,815</u>
	=====	=====

13. Deposits and balances due to banks

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Demand	60,511	839
Time	74,092	44,640
	<u>134,603</u>	<u>45,479</u>
	=====	=====

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Banks in the U.A.E.	83,966	-
Banks abroad	50,637	45,479
	<u>134,603</u>	<u>45,479</u>
	=====	=====

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

14. Other Liabilities

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Acceptances – contra	1,122,945	1,441,148
Provision for employees' end of service benefits	40,105	39,374
Interest payable	87,832	84,858
Unearned income	28,248	22,362
Managers' cheques	19,068	24,174
Accrued expenses and others	64,089	76,943
Negative fair value of derivatives	2,667	823
	1,364,954	1,689,682
	=====	=====

15. Issue Bonds

On 8 June 2015, the Bank raised financing by way of USD 500 million (equivalent to AED 1,836 million) in 5-year senior unsecured bonds (the "Bonds") issued by BOS Funding Limited, a wholly owned subsidiary of the Bank, incorporated in the Cayman Islands. The Bonds are fully guaranteed by the Bank, carry a fixed interest rate of 3.374 per cent per annum payable semi-annually and are listed on the Irish Stock Exchange.

16. Dividends and treasury shares

Dividends

At the Annual General Meeting of the shareholders held on 30 April 2016, the shareholders approved a 5.24% treasury shares distribution (110 million shares) amounting to AED 220 million (2014: 3.4% cash dividend amounting to AED 71.5 million and 4.98% treasury shares distribution (99.5 million shares) amounting to AED 197 million), which is in the process of being distributed to the shareholders in coordination with the concerned authorities. The shareholders also approved Directors' remuneration of AED 7.5 million (2014: AED 7.5 million) and charitable donations of AED 2.5 million (2014: AED 2.5 million). In addition, the shareholders also approved the appropriation of AED 30 million to contingency reserves.

At the Annual General Meeting held on 6 February 2016 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved a cash dividend for an amount of AED 11.0 million (2014: cash dividend of AED 9.2 million) out of which the non-controlling interest share amounted to AED 2.2 million (2014: AED 1.8 million). In addition to the above, an amount of AED 3.1 million was paid as Directors' remuneration (2014: AED 3.1 million).

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

17. 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	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Basic earnings per share				
Profit attributable to owners of the Bank for the period (AED'000)	91,568	88,096	170,239	171,364
Profit available to the owners of the Bank	91,568	88,096	170,239	171,364
Weighted average number of shares outstanding during the period (in thousands shares)	2,100,000	2,067,558	2,100,000	2,067,558
Basic earnings per share (AED)	0.044	0.043	0.081	0.083

As at 30 June 2016 and 30 June 2015, there were no potential dilutive shares outstanding.

The weighted average number of ordinary shares in issue throughout the periods ended 30 June 2015 and 2016 has been adjusted to reflect the distribution of treasury shares during the period ended 30 June 2016.

18. Commitments and contingent liabilities

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Financial guarantees for loans	494,412	706,794
Other guarantees	2,163,821	2,247,582
Letters of credit	1,250,295	1,307,698
Capital commitments	44,929	44,929
	3,953,457	4,307,003
Irrevocable commitments to extend credit	1,567,389	1,552,812
	5,520,846	5,859,815

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

19. Cash and cash equivalents

	30 June 2016 AED'000 (unaudited)	30 June 2015 AED'000 (unaudited)
Cash and balances with central banks (Note 7)	4,432,563	4,814,864
Deposits and balances due from banks (Note 8)	1,330,682	1,761,694
Deposits and balances due to banks (Note 13)	(134,603)	(341,043)
	5,628,642	6,235,515
Less: Deposits and balances due from banks - original maturity more than three months	(1,114,916)	(1,292,439)
Less: Statutory deposits with central banks (Note 7)	(1,381,660)	(1,129,784)
	3,132,066	3,813,292
	=====	=====

20. Fiduciary assets

As at 30 June 2016, the Group holds investments at fair value amounting to AED 0.3 billion (31 December 2015: at fair value AED 0.8 billion) which are held in custody on behalf of customers and therefore are not treated as assets in the condensed consolidated interim statement of financial position.

21. Related party transactions

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the condensed consolidated interim statement of financial position and the significant transactions with related parties are as follows:

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Loans and advances	2,375,456	2,162,402
Letters of credit, guarantee and acceptances	330,829	389,072
	2,706,285	2,551,474
Collateral deposits	199,387	169,941
Net exposure	2,506,898	2,381,533
	=====	=====
Other deposits	341,210	120,235
	=====	=====

As at 30 June 2016, entities related to one of the directors accounted for 72% (31 December 2015: 74%) of the total aforementioned net exposure taking into consideration that this director's gross exposure was reduced by 17% compared to the same period of last year.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

21. Related party transactions (continued)

	Six-months period ended 30 June	
	2016 AED'000 (unaudited)	2015 AED'000 (unaudited)
Interest income	60,954	64,456
Interest expense	3,736	4,577
Directors fees	10,585	10,587

22. 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
<u>30 June 2016 (unaudited):</u>				
Segment assets	22,671,005	2,357,973	1,260,014	26,288,992
Segment liabilities	19,457,698	1,808,181	242,010	21,507,889
<u>31 December 2015 (audited):</u>				
Segment assets	23,211,903	3,224,689	1,150,326	27,586,918
Segment liabilities	20,978,441	1,737,498	248,535	22,964,474

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

22. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the six-month period ended 30 June 2016 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
-Net interest income	246,516	16,911	-	263,427
-Net fee and commission income	57,771	-	-	57,771
-Exchange profit	11,129	-	-	11,129
-Investment Profit	-	10,055	-	10,055
-Other income	-	-	20,934	20,934
	<u>315,416</u>	<u>26,966</u>	<u>20,934</u>	<u>363,316</u>
Operating income				
Other material non-cash items				
-Net impairment charge on financial assets	(36,499)	-	-	(36,499)
-Depreciation of property and equipment	-	-	(12,968)	(12,968)
-General and administrative expenses	(109,572)	(19,336)	-	(128,908)
-Amortization of other intangible assets	-	-	(3,892)	(3,892)
-Income tax– overseas	-	-	(5,379)	(5,379)
	<u>169,345</u>	<u>7,630</u>	<u>(1,305)</u>	<u>175,670</u>
Profit for the period	<u>169,345</u>	<u>7,630</u>	<u>(1,305)</u>	<u>175,670</u>

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

22. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the six-month period ended 30 June 2015 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
-Net interest income	246,996	11,540	-	258,536
-Net fee and commission income	64,843	-	-	64,843
-Exchange profit	11,161	-	-	11,161
-Investment loss	-	(348)	-	(348)
-Other income	30,310	-	-	30,310
	<u>353,310</u>	<u>11,192</u>	<u>-</u>	<u>364,502</u>
Operating income				
Other material non-cash items				
-Net impairment charge on financial assets	(49,299)	-	-	(49,299)
-Depreciation of property and equipment	-	-	(11,289)	(11,289)
-General and administrative expenses	(99,108)	(17,489)	-	(116,597)
-Amortization of other intangible assets	(3,892)	-	-	(3,892)
-Income tax– overseas	-	-	(4,361)	(4,361)
-Discontinued operations	-	(3,438)	-	(3,438)
	<u>201,011</u>	<u>(9,735)</u>	<u>(15,650)</u>	<u>175,626</u>
Profit for the period	<u>201,011</u>	<u>(9,735)</u>	<u>(15,650)</u>	<u>175,626</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (30 June 2016: 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 2015.

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.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

22. Segmental information (continued)

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 and information about its non-current assets by geographical location are detailed below:

	Country of domicile AED'000	Foreign AED'000	Total AED'000
2016			
Operating income (from external customers) for the three months period ended 30 June 2016 (unaudited)	287,576	75,740	363,316
Non-current assets as at 30 June 2016 (unaudited)	1,625,984	348,008	1,973,992
2015			
Operating income (from external customers) for the three months period ended 30 June 2015 (unaudited)	299,331	65,171	364,502
Non-current assets as at 30 June 2015 (unaudited)	581,460	271,551	853,011

23. 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 at fair value through profit and loss represent investment in securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Included in these investment listed, equity securities for which the fair values are based on quoted prices at close of business as at 30 June 2016, 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 supported by observable market prices or rates.

Unquoted investments held at fair value through other comprehensive income

Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

23. Fair value of financial instruments (continued)

Fair value of financial assets 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 statements approximate their fair values.

	30 June 2016		31 December 2015	
	Carrying amount AED'000 (unaudited)	Fair Value AED'000 (unaudited)	Carrying amount AED'000 (audited)	Fair value AED'000 (audited)
Financial assets				
- Other financial assets measured at amortised cost	674,851	675,978	527,330	527,752

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

Fair value measurements recognised in the consolidated 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 banked 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).

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

23. Fair value of financial instruments (continued)

Fair value measurements recognised in the consolidated statement of financial position (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 30 June 2016 (unaudited)				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	28,370	-	-	28,370
Unquoted debt securities	-	38,561	-	38,561
<i>Investments carried at FVTOCI</i>				
Quoted equity	111,156	-	-	111,156
Unquoted equity	-	-	1,021,310	1,021,310
Total	139,526	38,561	1,021,310	1,199,397
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL	1,808,181	-	-	1,808,181
Quoted debt securities	-	-	-	-
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	54,543	-	54,543
Negative fair value of derivatives	-	(2,667)	-	(2,667)
At 31 December 2015 (audited)				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	21,500	-	-	21,500
Quoted debt securities	-	68,604	-	68,604
<i>Investments carried at FVTOCI</i>				
Quoted equity	101,800	-	-	101,800
Unquoted equity	-	-	1,022,974	1,022,974
Total	123,300	68,604	1,022,974	1,214,878
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL	-	-	-	-
Quoted debt securities	1,737,498	-	-	1,737,498
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	1,945	-	1,945
Negative fair value of derivatives	-	(823)	-	(823)

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

**Notes to the condensed consolidated interim financial statements
for the six-month period ended 30 June 2016 (continued)**

23. Fair value of financial instruments (continued)

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

	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
Opening balance	1,022,974	973,661
Additions	-	77,133
Losses recognised in other comprehensive income	(1,664)	(27,820)
Closing balance	1,021,310	1,022,974

24. Capital adequacy

The capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank:

	Basel II	
	30 June 2016 AED'000 (unaudited)	31 December 2015 AED'000 (audited)
<i>Capital base</i>		
Tier 1 capital	4,340,050	4,175,778
Tier 2 capital	325,808	342,425
Total capital base	4,665,858	4,518,203
<i>Risk-weighted assets:</i>		
Credit risk	18,479,113	19,746,453
Market risk	101,720	131,933
Operational risk	1,502,954	1,502,954
Total risk-weighted assets	20,083,787	21,381,340
Capital adequacy ratio	23.23%	21.13%

25. Approval of condensed consolidated interim financial statements

The condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on 24 July 2016.