

**Bank of Sharjah P.J.S.C.**

**Review report and  
Condensed consolidated interim financial information  
for the three-month period ended 31 March 2018**

## **Bank of Sharjah P.J.S.C.**

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To the Shareholders of Bank of Sharjah P.J.S.C.

We have reviewed the accompanying 31 March 2018 condensed consolidated interim 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 consolidated interim statement of financial position as at 31 March 2018;
- the condensed consolidated interim statement of profit or loss for the three-month period ended 31 March 2018;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2018;
- the condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2018;
- the condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2018; and
- notes to the condensed consolidated interim financial information.

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

## Scope of Review

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



## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited



Fawzi AbuRass  
Registration No: 968  
Dubai, United Arab Emirates  
Date: **07 MAY 2018**

**Bank of Sharjah P.J.S.C.**

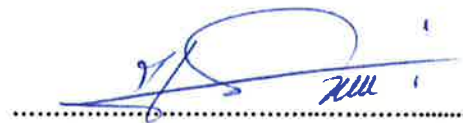
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**Condensed consolidated interim statement of financial position****As at**

	Note	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
<b>ASSETS</b>			
Cash and balances with central banks	7	4,653,562	5,587,606
Deposits and balances due from banks	8	1,058,533	503,218
Reverse-repo placements	9	1,808,157	1,867,798
Loans and advances, net	10	16,659,315	17,476,329
Other financial assets measured at fair value	11	1,054,994	813,286
Other financial assets measured at amortised cost	11	679,396	794,585
Investment properties		592,347	584,858
Goodwill and other intangibles		420,487	421,966
Other assets	12	2,741,798	2,192,732
Property and equipment		263,797	268,822
<b>Total assets</b>		<b>29,932,386</b>	<b>30,511,200</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Customers' deposits	13	21,037,400	21,630,471
Deposits and balances due to banks	14	138,248	87,122
Other liabilities	15	1,201,055	1,018,866
Issued bonds	16	3,638,290	3,706,810
<b>Total liabilities</b>		<b>26,014,993</b>	<b>26,443,269</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital		2,100,000	2,100,000
Statutory reserve		1,050,000	1,050,000
Contingency reserve		600,000	560,000
General reserve		100,000	100,000
Investment fair value reserve		(351,007)	(400,782)
Retained earnings		407,078	647,251
<b>Equity attributable to equity holders of the Bank</b>		<b>3,906,071</b>	<b>4,056,469</b>
Non-controlling interests		11,322	11,462
<b>Total equity</b>		<b>3,917,393</b>	<b>4,067,931</b>
<b>Total liabilities and equity</b>		<b>29,932,386</b>	<b>30,511,200</b>



Mr. Ahmed Abdalla Al Noman  
Chairman



Mr. Mario Tohme  
Deputy General Manager

**07 MAY 2018**

The accompanying notes 1 to 26 form an integral part of these condensed consolidated interim financial statements.

**Bank of Sharjah P.J.S.C.**

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**Condensed consolidated interim statement of profit or loss (unaudited)  
for the three-month period ended 31 March**

	Note	31 March 2018 AED'000	31 March 2017 AED'000
Interest income		293,719	265,863
Interest expense		(183,845)	(149,287)
<b>Net interest income</b>		<b>109,874</b>	<b>116,576</b>
Net fee and commission income		27,377	28,846
Exchange profit		4,239	5,766
Income on investments		12,821	(16,427)
Other income		3,735	6,951
<b>Operating income</b>		<b>158,046</b>	<b>141,712</b>
Impairment release/ (loss) on financial assets		6,962	(9,358)
<b>Net operating income</b>		<b>165,008</b>	<b>132,354</b>
General and administrative expenses		(75,023)	(70,903)
Amortisation of intangible assets		(1,478)	(1,478)
<b>Profit before taxes</b>		<b>88,507</b>	<b>59,973</b>
Income tax expense - overseas		(4,695)	(2,093)
<b>Net profit for the period</b>		<b>83,812</b>	<b>57,880</b>
<b>Attributable to:</b>			
Equity holders of the Bank		83,952	55,467
Non-controlling interests		(140)	2,413
<b>Net profit for the period</b>		<b>83,812</b>	<b>57,880</b>
<b>Basic and diluted earnings per share (AED)</b>	18	<b>0.040</b>	<b>0.026</b>

The accompanying notes 1 to 26 form an integral part of these condensed consolidated interim financial statements.

**Condensed consolidated interim statement of profit and loss and other comprehensive income (unaudited) for the three-month period ended 31 March**

	31 March 2018 AED'000	31 March 2017 AED'000
<b>Profit for the period</b>	<b>83,812</b>	<b>57,880</b>
<b>Other comprehensive income items</b>		
<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	27,145	3,317
Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk	22,630	(15,741)
<b>Other comprehensive income/(loss) for the period</b>	<b>49,775</b>	<b>(12,424)</b>
<b>Total comprehensive income for the period</b>	<b>133,587</b>	<b>45,456</b>
<b>Attributable to:</b>		
Equity holders of the Bank	133,727	43,043
Non-controlling interests	(140)	2,413
<b>Total comprehensive income for the period</b>	<b>133,587</b>	<b>45,456</b>

The accompanying notes 1 to 26 form an integral part of these condensed consolidated interim financial statements.

**Condensed consolidated interim statement of changes in equity (unaudited)  
for the three-month period ended 31 March**

	Share capital 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 2017 (audited)	2,100,000	1,050,000	510,000	100,000	22,836	606,035	4,388,871	210,857	4,599,728
Profit for the period	-	-	-	-	-	55,467	55,467	2,413	57,880
Reclassification on disposal of FVOCI investment	-	-	-	-	(3,897)	3,897	-	-	-
Other comprehensive loss	-	-	-	-	(12,424)	-	(12,424)	-	(12,424)
Total comprehensive income for the period	-	-	-	-	(16,321)	59,364	43,043	2,413	45,456
Directors' remuneration (Note 17)	-	-	-	-	-	(2,909)	(2,909)	(727)	(3,636)
Dividends (Note 17)	-	-	-	-	-	-	-	(1,469)	(1,469)
<b>Balance at 31 March 2017 (unaudited)</b>	<b>2,100,000</b>	<b>1,050,000</b>	<b>510,000</b>	<b>100,000</b>	<b>6,515</b>	<b>662,490</b>	<b>4,429,005</b>	<b>211,074</b>	<b>4,640,079</b>
Balance at 1 January 2018 (audited)	2,100,000	1,050,000	560,000	100,000	(400,782)	647,251	4,056,469	11,462	4,067,931
Profit for the period	-	-	-	-	-	83,952	83,952	(140)	83,812
Other comprehensive loss	-	-	-	-	49,775	-	49,775	-	49,775
Total comprehensive income for the period	-	-	-	-	49,775	83,952	133,727	(140)	133,587
Effect of adopting IFRS9 (Note 3.5)	-	-	-	-	-	(265,158)	(265,158)	-	(265,158)
Transfer to contingency reserve (Note 17)	-	-	40,000	-	-	(40,000)	-	-	-
Directors' remuneration (Note 17)	-	-	-	-	-	(11,467)	(11,467)	-	(11,467)
Charity donations (Note 17)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
<b>Balance at 31 March 2018 (unaudited)</b>	<b>2,100,000</b>	<b>1,050,000</b>	<b>600,000</b>	<b>100,000</b>	<b>(351,007)</b>	<b>407,078</b>	<b>3,906,071</b>	<b>11,322</b>	<b>3,917,393</b>

The accompanying notes 1 to 26 form an integral part of these condensed consolidated interim financial statements.



**Condensed consolidated interim statement of cash flows (unaudited)  
for the three-month period ended 31 March**

	Note	31 March 2018 AED'000	31 March 2017 AED'000
<b>Cash flows from operating activities</b>			
Profit for the period		83,812	57,880
<b>Adjustments for:</b>			
Depreciation of property and equipment		7,337	7,216
Amortisation of other intangible assets		1,478	1,478
Amortisation of (premium)/ discount on debt instruments		31	1,019
Gain on sale of property and equipment		68	8
Net fair value gain on issued debt securities		(75,151)	11,830
Net fair value loss on interest rate swaps		75,151	(11,830)
Net fair value (gain)/loss on other financial assets		(12,873)	16,256
Net impairment loss on financial assets		(6,962)	9,358
<b>Operating profit before changes in operating assets and liabilities</b>		<b>72,891</b>	<b>93,215</b>
<b>Changes in</b>			
Deposits and balances due from banks maturing after three months		(51,200)	31,011
Statutory deposits with central banks		178,620	(55,849)
Loans and advances		581,331	504,618
Other assets		(539,677)	(444,037)
Customers' deposits		(593,072)	(897,449)
Other liabilities		92,110	156,326
<b>Cash used in operating activities</b>		<b>(258,997)</b>	<b>(612,165)</b>
Payment of directors' remuneration and charity donations		(18,967)	(3,636)
<b>Net cash used in operating activities</b>		<b>(277,964)</b>	<b>(615,801)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(2,382)	(4,648)
Proceeds from sale of property and equipment		2	86
(Addition)/sale of investment properties		(7,489)	3,555
Purchase of other financial assets		(118,457)	(140,695)
Proceeds from sale of other financial assets		25,632	76,131
<b>Net cash used in investing activities</b>		<b>(102,694)</b>	<b>(65,571)</b>
<b>Cash flows from financing activities</b>			
Issued bonds		-	1,836,500
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>1,836,500</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(380,658)</b>	<b>1,155,128</b>
Cash and cash equivalents at the beginning of the period		5,113,748	3,015,845
<b>Cash and cash equivalents at the end of the period</b>	20	<b>4,733,090</b>	<b>4,170,973</b>

The accompanying notes 1 to 26 form an integral part of these condensed consolidated interim financial statements.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018****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 have been prepared in accordance with the International Accounting Standard No. 34 - Interim Financial Reporting (“IAS 34”) issued by the International Accounting Standards Board and the applicable provisions of UAE Federal Law No 2 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 2017.

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 2017. In addition, the results for the period from 1 January 2018 to 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

**3. Application of new and revised International Financial Reporting Standards (IFRSs)****3.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial information**

The following revised IFRSs have been adopted in these condensed consolidated interim financial information. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods, except as disclosed, but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 40 Investment property relating to when a transfer to or from investment property is made.
- Revised version of IFRS 9 relating to the recognition of the expected credit losses based on three stage model for measurement of impairment.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

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

**3.2 New and revised standards in issue but not yet effective**

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective. The management is in the process of assessing the impact of the new requirements.

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> <li>IFRS 16 <i>Leases</i>: IFRS 16 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.</li> </ul>	1 January 2019

**3.3 Changes in accounting policies**

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the last annual financial statements except for changes resulting from adoption of the following:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of initial application of 1 January 2018. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

***Classification of financial assets and financial liabilities***

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.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

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

**3.3 Changes in accounting policies (continued)**

***Classification of financial assets and financial liabilities (continued)***

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.

All other financial assets are classified as measured at FVTPL.

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.

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

***Business model assessment***

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

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

**3.3 Changes in accounting policies (continued)**

***Business model assessment (continued)***

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

***Modifications of financial assets***

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

***Impairment***

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

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

**3.3 Changes in accounting policies (continued)**

***Impairment (continued)***

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

***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 (SIR) 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 SIR 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.

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.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

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

**3.3 Changes in accounting policies (continued)**

***Measurement of ECL (continued)***

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

***Forward-looking information***

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

***Macroeconomic factors***

In its models, the Bank relies on a broad range of forward looking information as economic inputs, such as: GDP growth and oil prices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

***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 Bank 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 Bank'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 the increase in credit risk since origination has reduced and is no longer deemed to be significant.

***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;
- *loan commitments and financial guarantee contracts*: generally, as a provision;

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

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

**3.3 Changes in accounting policies (continued)**

***Assessment of significant increase in credit risk (continued)***

• *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

• *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 fair value reserve.

***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); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

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.

***Hedge accounting***

The Bank has elected to continue to apply the hedge accounting requirements of IAS 39. The hedge accounting policy is described in Note 4.14 of the Bank's consolidated financial statements.

***Transition***

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

• Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.



**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

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

**3.4 Impact on components of statement of financial position balances from IAS 39 to IFRS 9**

Explanations in respect of change in measurement of categories of financial assets in accordance with IFRS 9 as at 1 January 2018 primarily comprise the following:

- Net loans and advances- an opening adjustment of AED 243 million has resulted in decrease in value of AED 17.48 billion at 31 December 2017 to AED 17.23 billion.
- Cash and balances with central banks - an opening adjustment of AED 14 million has resulted in decrease in value of AED 5.59 billion at 31 December 2017 to AED 5.57 billion.
- Deposits and balances due from banks - an opening adjustment of AED 1.87 million has resulted in decrease in value of AED 503 million at 31 December 2017 to AED 501 million.
- Reverse-repo placements - an opening adjustment of AED 363 thousand has resulted in decrease in value of AED 1.87 billion at 31 December 2017 to AED 1.87 billion.
- Investment in debt securities at amortised cost - an opening adjustment of AED 6 million has resulted in decrease in value of AED 795 million at 31 December 2017 to AED 789 million.

**3.5 Reconciliation of impairment provision balance from IAS 39 to IFRS 9**

The following table reconciles the closing impairment loss allowance for financial assets in accordance with IAS 39 and provisions for financing commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 Dec 2017	Re-measure- ment	1 Jan 2018
	AED'000	AED'000	AED'000
Loans and advances at amortised cost	17,476,329	(242,648)	17,233,681
Cash and balances with central banks	5,587,606	(14,299)	5,573,307
Deposits and balances due from banks	503,218	(1,866)	501,352
Reverse-repo placements	1,867,798	(363)	1,867,435
Investment in debt securities at amortised cost	794,585	(5,982)	788,603
	<u>26,229,536</u>	<u>(265,158)</u>	<u>25,964,378</u>

**4. Use of estimates and judgements**

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

In preparing 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 applied to the audited consolidated financial statements as at and for the year ended 31 December 2017, except the below which were a result of adoption of IFRS 9:

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**4. Use of estimates and judgements (continued)**

Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

**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 2017.

**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.

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.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**6. Basis of consolidation (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	Country of incorporation	Principal activities
	2018	2017			
Emirates Lebanon Bank S.A.L.	100%	100%	1965	Lebanon	Financial institution
El Capital FZC	100%	100%	2007	U.A.E.	Investment in a 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
Muwaileh Capital FZC	90%	90%	2010	U.A.E.	Developing of real estate & related activities

**7. Cash and balances with central banks**

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

	31 March 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Cash on hand	52,204	58,403
Statutory deposits (note 7.1)	1,145,242	1,323,862
Current accounts	1,015,172	450,268
Certificates of deposits	2,455,243	3,755,073
	<hr/>	<hr/>
	4,667,861	5,587,606
Expected credit losses	(14,299)	-
	<hr/>	<hr/>
	4,653,562	5,587,606
	<hr/>	<hr/>

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**7. Cash and balances with central banks (continued)**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Banks abroad	1,690,259	3,838,043
Banks in the U.A.E.	2,977,602	1,749,563
	<hr/>	<hr/>
	4,667,861	5,587,606
Expected credit losses	(14,299)	-
	<hr/>	<hr/>
	<b>4,653,562</b>	<b>5,587,606</b>
	<hr/> <hr/>	<hr/> <hr/>

7.1 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 31 March 2018, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 531 million (31 December 2017: AED 718 million).

**8. Deposits and balances due from banks**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Demand	415,183	289,304
Time	647,345	213,914
	<hr/>	<hr/>
	1,062,528	503,218
Expected credit losses	(3,995)	-
	<hr/>	<hr/>
	<b>1,058,533</b>	<b>503,218</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Banks abroad	455,500	471,395
Banks in the U.A.E.	607,028	31,823
	<hr/>	<hr/>
	1,062,528	503,218
Expected credit losses	(3,995)	-
	<hr/>	<hr/>
	<b>1,058,533</b>	<b>503,218</b>
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**9. Reverse-repo placements**

The analysis of the Group's repurchase agreements is as follows:

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Banks abroad	268,669	272,821
Banks in the U.A.E.	1,539,779	1,594,977
	<b>1,808,448</b>	<b>1,867,798</b>
Expected credit losses	(291)	-
	<b>1,808,157</b>	<b>1,867,798</b>

The Bank entered into reverse-repo agreements under which bonds with fair value of AED 1,876 million (December 31, 2017 - AED 1,885 million) were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties.

**10. Loans and advances, net**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Overdrafts	6,596,340	6,617,800
Commercial loans	9,732,038	10,142,743
Bills receivable	2,009,040	2,136,416
Other advances	546,798	541,211
Gross amount of loans and advances	<b>18,884,216</b>	<b>19,438,170</b>
Less: Allowance for impairment	<b>(1,838,725)</b>	<b>(1,555,122)</b>
Less: Interest in suspense	<b>(386,176)</b>	<b>(406,719)</b>
Net loans and advances	<b>16,659,315</b>	<b>17,476,329</b>

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**10. Loans and advances, net (continued)**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Loans and advances in the U.A.E.	<b>16,134,770</b>	16,782,025
Loans and advances abroad	<b>2,749,446</b>	2,656,145
	<b><u>18,884,216</u></b>	<b><u>19,438,170</u></b>

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Balance at the beginning of the period/year	<b>1,555,122</b>	1,583,551
Additions through collective impairment, net	-	6,289
Additions	<b>4,092</b>	351,302
Transfer from interest in suspense	<b>50,355</b>	-
Write-offs	-	(250,874)
Write-backs	<b>(30,938)</b>	(135,146)
	<b><u>1,578,631</u></b>	<b><u>1,555,122</u></b>
Cumulative effect of adopting IFRS 9	<b>260,094</b>	-
Balance at the end of the period/year	<b><u>1,838,725</u></b>	<b><u>1,555,122</u></b>

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**11. Other financial assets**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
<b>Other financial assets measured at fair value</b>		
<b>(i) Investments measured at FVTPL</b>		
Quoted equity	116,326	103,453
	<u>116,326</u>	<u>103,453</u>
<b>(ii) Investments measured at FVTOCI</b>		
Quoted equity	171,684	145,416
Unquoted equity	566,638	564,417
Debt securities	200,346	-
	<u>938,668</u>	<u>709,833</u>
<b>Total other financial assets measured at fair value</b>	<u>1,054,994</u>	<u>813,286</u>
<b>Other financial assets measured at amortised cost</b>		
Debt securities	685,691	794,585
Expected credit losses	(6,295)	-
	<u>679,396</u>	<u>794,585</u>
<b>Total other financial assets</b>	<u>1,734,390</u>	<u>1,607,871</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:

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
United Arab Emirates	606,297	474,196
Middle East (other than G.C.C. countries)	1,104,262	1,103,552
Europe	30,126	30,123
	<u>1,740,685</u>	<u>1,607,871</u>
Expected credit losses	(6,295)	-
	<u>1,734,390</u>	<u>1,607,871</u>

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**12. Other assets**

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Acceptances – contra	715,685	629,651
Assets acquired in settlement of debt	1,588,979	1,262,546
Cheques in the course of collection	201,547	-
Interest receivable	57,601	40,943
Clearing receivables and accrued income	37,537	97,340
Prepayments	27,598	23,269
Positive fair value of derivatives	5,416	5,945
Other	107,435	133,038
	<u>2,741,798</u>	<u>2,192,732</u>

**13. Customers' deposits**

The analysis of customers' deposits is as follows:

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Current and other accounts	3,433,626	3,742,322
Saving accounts	1,700,347	1,715,952
Time deposits	15,903,427	16,172,197
	<u>21,037,400</u>	<u>21,630,471</u>

**14. Deposits and balances due to banks**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Demand	82,974	4,319
Time	55,274	82,803
	<u>138,248</u>	<u>87,122</u>



**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**14. Deposits and balances due to banks (continued)**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Banks in the U.A.E.	29,661	4,060
Banks abroad	108,587	83,062
	<u>138,248</u>	<u>87,122</u>

**15. Other Liabilities**

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Acceptances – contra	715,685	629,651
Interest payable	168,815	161,576
Accrued expenses and others	132,843	84,599
Negative fair value of derivatives	85,262	40,032
Provision for employees' end of service benefits	44,176	42,569
Unearned income	44,434	26,271
Managers' cheques	9,840	34,168
	<u>1,201,055</u>	<u>1,018,866</u>

**16. Issued Bonds**

On 8 June 2015, the Bank raised financing by way of USD 500 million (equivalent to AED 1,836 million) in 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.

On 28 February 2017, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836 million) for a five year maturity at mid swaps plus 225 basis point, to yield 4.23%. The Notes were issued under the Bank's recently established Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

**17. Transactions with owners and directors of the Group**

**Bank of Sharjah**

*Dividends*

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders approved no cash dividends distribution (2016: 7.66% dividends distribution amounting to AED 161 million).

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**17. Transactions with owners and directors of the Group (continued)**

**Bank of Sharjah**

*Directors' remuneration*

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders of the Bank approved Directors' remuneration of AED 7.5 million (2016: AED 7.5 million).

*Charity donations*

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders approved charitable donations of AED 7.5 million (2016: AED 7.5 million).

*Transfer to reserves*

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders approved an appropriation of AED 40 million (2016: AED 50 million) to contingency reserves.

**Emirates Lebanon Bank**

*Cash dividend*

At the Annual General Meeting held on 3 March 2018 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved no cash dividend distribution (2016: cash dividend of AED 7.3 million out of which the non-controlling interest share amounted to AED 1.5 million).

*Directors' remuneration*

At the Annual General Meeting held on 3 March 2018 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.9 million (2016: AED 3.6 million out of which the non-controlling interest share amounted to AED 0.7 million).

**18. 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:

	<b>Three-months period ended 31 March</b>	
	<b>2018</b>	<b>2017</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Basic earnings per share</b>		
Profit attributable to owners of the Bank for the period (AED'000)	<b>83,952</b>	55,467
Profit available to the owners of the Bank	<b>83,952</b>	55,467
Weighted average number of shares outstanding during the period (in thousands shares)	<b>2,100,000</b>	2,100,000
<b>Basic earnings per share (AED)</b>	<b>0.040</b>	0.026

As at 31 March 2018 and 31 March 2017, there were no potential dilutive shares outstanding.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**19. Commitments and contingent liabilities**

	<b>31 March 2018 AED'000 (unaudited)</b>	31 December 2017 AED'000 (audited)
Financial guarantees for loans	630,877	629,622
Other guarantees	2,008,692	1,736,696
Letters of credit	1,071,870	1,372,439
Capital commitments	17,496	17,496
	<u>3,728,935</u>	<u>3,756,253</u>
Irrevocable commitments to extend credit	1,550,954	1,873,569
	<u>5,279,889</u>	<u>5,629,822</u>

**20. Cash and cash equivalents**

	<b>31 March 2018 AED'000 (unaudited)</b>	31 March 2017 AED'000 (unaudited)
Cash and balances with central banks (Note 7)	4,653,562	4,342,101
Deposits and balances due from banks (Note 8)	1,058,533	1,254,576
Reverse-repo placements (Note 9)	1,808,157	1,845,954
Deposits and balances due to banks (Note 14)	(138,248)	(720,424)
	<u>7,382,004</u>	<u>6,722,207</u>
Less: Deposits with central banks and balances due from banks - original maturity more than three months	(1,503,672)	(1,356,830)
Less: Statutory deposits with central banks (Note 7)	(1,145,242)	(1,194,404)
	<u>4,733,090</u>	<u>4,170,973</u>

**21. Fiduciary assets**

As at 31 March 2018, the Group holds investments at fair value amounting to AED 0.7 billion (31 December 2017: at fair value AED 0.7 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.

**22. 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.

## 22. Related party transactions (continued)

	31 March 2018 AED'000 (unaudited)	31 December 2017 AED'000 (audited)
Loans and advances	636,750	647,927
Letters of credit, guarantee and acceptances	122,556	122,045
	<u>759,306</u>	<u>769,972</u>
Collateral deposits	213,403	207,313
Net exposure	<u>545,903</u>	<u>562,659</u>
Other deposits	<u>159,181</u>	<u>154,394</u>

	Three-months period ended 31 March	
	2018 AED'000 (unaudited)	2017 AED'000 (unaudited)
Interest income	11,748	11,697
Interest expense	2,343	2,114
Directors fees	11,467	2,909

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.

- (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.

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**23. Segmental information (continued)**

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

	<b>Commercial Banking AED'000</b>	<b>Investment Banking AED'000</b>	<b>Unallocated AED'000</b>	<b>Total AED'000</b>
<b><u>31 March 2018 (unaudited):</u></b>				
<b>Segment assets</b>	<b>24,280,496</b>	<b>3,361,981</b>	<b>2,289,909</b>	<b>29,932,386</b>
<b>Segment liabilities</b>	<b>21,891,333</b>	<b>3,638,290</b>	<b>485,370</b>	<b>26,014,993</b>
<b><u>31 December 2017 (audited):</u></b>				
<b>Segment assets</b>	<b>25,481,493</b>	<b>3,197,803</b>	<b>1,831,904</b>	<b>30,511,200</b>
<b>Segment liabilities</b>	<b>22,347,244</b>	<b>3,706,810</b>	<b>389,215</b>	<b>26,443,269</b>

The following table presents information regarding the Group's operating segments for the three-months period ended 31 March 2018 (unaudited):

	<b>Commercial Banking AED'000</b>	<b>Investment Banking AED'000</b>	<b>Unallocated AED'000</b>	<b>Total AED'000</b>
<b>Revenue from external customers</b>				
-Net interest income	99,940	9,934	-	109,874
-Net fee and commission income	27,377	-	-	27,377
-Exchange profit	4,239	-	-	4,239
-Investment income	-	12,821	-	12,821
-Other income	3,735	-	-	3,735
<b>Operating income</b>	<b>135,291</b>	<b>22,755</b>	<b>-</b>	<b>158,046</b>
<b>Other material non-cash items</b>				
-Net impairment charge on financial assets	6,962	-	-	6,962
-Depreciation of property and equipment	-	-	(7,337)	(7,337)
-General and administrative expenses	(57,533)	(10,153)	-	(67,686)
-Amortization of other intangible assets	-	-	(1,478)	(1,478)
-Income tax— overseas	-	-	(4,695)	(4,695)
<b>Profit for the period</b>	<b>84,720</b>	<b>12,602</b>	<b>(13,510)</b>	<b>83,812</b>

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**23. Segmental information (continued)**

The following table presents information regarding the Group's operating segments for the three-months period ended 31 March 2017 (unaudited):

	<b>Commercial Banking AED'000</b>	<b>Investment Banking AED'000</b>	<b>Unallocated AED'000</b>	<b>Total AED'000</b>
<b>Revenue from external customers</b>				
-Net interest income	106,780	9,796	-	116,576
-Net fee and commission income	28,846	-	-	28,846
-Exchange profit	5,766	-	-	5,766
-Investment loss	-	(16,427)	-	(16,427)
-Other income	-	-	6,951	6,951
<b>Operating income</b>	<b>141,392</b>	<b>(6,631)</b>	<b>6,951</b>	<b>141,712</b>
<b>Other material non-cash items</b>				
-Net impairment charge on financial assets	(9,358)	-	-	(9,358)
-Depreciation of property and equipment	-	-	(7,216)	(7,216)
-General and administrative expenses	(54,134)	(9,553)	-	(63,687)
-Amortization of other intangible assets	-	-	(1,478)	(1,478)
-Income tax— overseas	-	-	(2,093)	(2,093)
<b>Profit for the period</b>	<b>77,900</b>	<b>(16,184)</b>	<b>(3,836)</b>	<b>57,880</b>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (31 March 2018: 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 2017.

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 three-month period ended 31 March 2018 (continued)**

**23. 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
<b>2018</b>			
Operating income (from external customers) for the three month period ended 31 March 2018 (unaudited)	127,203	37,805	165,008
Non-current assets as at 31 March 2018 (unaudited)	2,931,237	333,969	3,265,206
<b>2017</b>			
Operating income (from external customers) for the three month period ended 31 March 2017 (unaudited)	122,953	18,759	141,712
Non-current assets as at 31 March 2017 (unaudited)	1,937,594	333,448	2,271,042

**24. 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.

Other financial assets 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 investments listed, debt and equity securities for which the fair values are based on quoted prices at close of business as at 31 March 2018.

Other financial assets held at fair value through other comprehensive income (unquoted)

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 three-month period ended 31 March 2018 (continued)**

**24. 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.

	<b>31 March 2018</b>		<b>31 December 2017</b>	
	<b>Carrying amount AED'000 (unaudited)</b>	<b>Fair Value AED'000 (unaudited)</b>	<b>Carrying amount AED'000 (audited)</b>	<b>Fair value AED'000 (audited)</b>
<b>Financial assets</b>				
- Other financial assets measured at amortised cost	<b>679,396</b>	<b>670,690</b>	<b>794,585</b>	<b>790,552</b>

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 three-month period ended 31 March 2018 (continued)**

**24. 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
<b>At 31 March 2018 (unaudited)</b>				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	116,326	-	-	116,326
<i>Investments carried at FVTOCI</i>				
Quoted equity	171,684	-	-	171,684
Unquoted equity	-	-	566,638	566,638
Unquoted debt securities	-	200,346	-	200,346
<b>Total</b>	<b>288,010</b>	<b>200,346</b>	<b>566,638</b>	<b>1,054,994</b>
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL				
Quoted debt securities	3,638,290	-	-	3,638,290
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	5,416	-	5,416
Negative fair value of derivatives	-	(85,262)	-	(85,262)
<b>At 31 December 2017 (audited)</b>				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	103,453	-	-	103,453
<i>Investments carried at FVTOCI</i>				
Quoted equity	145,416	-	-	145,416
Unquoted equity	-	-	564,417	564,417
<b>Total</b>	<b>248,869</b>	<b>-</b>	<b>564,417</b>	<b>813,286</b>
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL				
Quoted debt securities	3,706,810	-	-	3,706,810
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	5,945	-	5,945
Negative fair value of derivatives	-	(40,032)	-	(40,032)

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

**Notes to the condensed consolidated interim financial statements  
for the three-month period ended 31 March 2018 (continued)**

**24. Fair value of financial instruments (continued)**

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

	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (audited)</b>
Opening balance	564,417	913,010
Additions	-	37,309
Disposals	-	(8,499)
Profit/ (losses) recognised in other comprehensive income	2,221	(377,403)
Closing balance	<u>566,638</u>	<u>564,417</u>

**25. Capital adequacy**

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

	<b>Basel III</b>	
	<b>31 March 2018 AED'000 (unaudited)</b>	<b>31 December 2017 AED'000 (unaudited)</b>
<b><i>Capital base</i></b>		
Common Equity Tier 1	3,707,257	3,914,400
Additional Tier 1 capital	-	-
Tier 1 capital	3,707,257	3,914,400
Tier 2 capital	276,157	245,400
<b>Total capital base</b>	<u>3,983,414</u>	<u>4,159,800</u>
<b><i>Risk-weighted assets:</i></b>		
Credit risk	22,092,546	21,509,166
Market risk	234,275	208,783
Operational risk	1,481,723	1,481,723
<b>Total risk-weighted assets</b>	<u>23,808,544</u>	<u>23,199,672</u>
<b>Capital ratios</b>		
Common equity Tier 1 capital ratio	15.57%	16.87%
Tier 1 capital ratio	15.57%	16.87%
Total capital ratio	16.73%	17.93%

**26. Approval of condensed consolidated interim financial statements**

The condensed consolidated interim financial statements were approved by the Board of Directors and authorised for issue on 7 May 2018.