Bank of Sharjah P.J.S.C.

Review report and
Condensed consolidated interim financial information
for the three-month period ended 31 March 2021

Bank of Sharjah P.J.S.C.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Bank of Sharjah PJSC
Sharjah
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of **Bank of Sharjah PJSC** (the "Bank") **and its subsidiaries** (collectively referred as the "Group"), as at 31 March 2021, and the related condensed consolidated interim statement of profit or loss, comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34: Interim financial reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No. 1141
17 June 2021
Dubai
United Arab Emirates

Condensed consolidated interim statement of financial position
As at

	Note	**31 March 2021 (unaudited) AED'000**	31 December 2020 (audited) AED'000
ASSETS			
Cash and balances with central banks	6	**5,793,920**	5,534,099
Deposits and balances due from banks	7	**285,205**	129,046
Reverse-repo placements	8	**-**	114,234
Loans and advances, net	9	**19,879,436**	19,455,607
Investments measured at fair value	10	**440,212**	420,978
Investments measured at amortised cost	10	**4,227,893**	4,240,833
Investment properties		**810,044**	767,594
Intangible assets		**42,724**	40,370
Assets acquired in settlement of debt		**4,044,983**	4,020,165
Other assets	11	**1,005,488**	868,248
Derivative assets held for risk management		**30,605**	49,730
Property and equipment		**527,807**	502,586
Total assets		**37,088,317**	36,143,490
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	12	**24,054,715**	23,672,584
Deposits and balances due to banks	13	**266,301**	240,915
Repo borrowings	14	**2,328,160**	2,438,842
Other liabilities	15	**1,723,917**	1,655,840
Derivative liabilities held for risk management		**21,929**	15,941
Issued bonds	16	**5,376,756**	4,953,951
Total liabilities		**33,771,778**	32,978,073
Equity			
Capital and reserves			
Share capital		**2,100,000**	2,100,000
Statutory reserve		**1,050,000**	1,050,000
Contingency reserve		**640,000**	640,000
General and impairment reserve		**352,924**	288,962
Investment fair value reserve		**(728,797)**	(740,095)
Accumulated losses		**(106,080)**	(182,157)
Equity attributable to equity holders of the Bank		**3,308,047**	3,156,710
Non-controlling interests		**8,492**	8,707
Total equity		**3,316,539**	3,165,417
Total liabilities and equity		**37,088,317**	36,143,490

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Mohammed Bin Saud Al Qasimi
Chairman

....
Varouj Nerguizian
Group CEO

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

	Note	**31 March 2021 AED'000**	31 March 2020 AED'000
Interest income		**296,198**	322,644
Interest expense		**(182,985)**	(220,804)
Net interest income		**113,213**	101,840
Net fee and commission income		**41,635**	28,593
Exchange profit/(loss)		**1,054**	(1,856)
Income/(loss) on investments		**11,898**	(47,785)
Other income		**12,523**	11,166
Operating income		**180,323**	91,958
Net impairment reversal/(loss) on financial assets	**17**	**110**	(184,365)
Net operating income/(loss)		**180,433**	(92,407)
General and administrative expenses		**(84,888)**	(63,109)
Amortisation of intangible assets		**(1,282)**	(312)
Loss on monetary position		**(201,321)**	-
Loss before taxes		**(107,058)**	(155,828)
Income tax expense - overseas		**(15,085)**	(7,179)
Net loss for the period		**(122,143)**	(163,007)
Attributable to:			
Equity holders of the Bank		**(121,928)**	(162,794)
Non-controlling interests		**(215)**	(213)
Net loss for the period		**(122,143)**	(163,007)
Basic and diluted loss per share (AED)	**19**	**(0.058)**	(0.078)

The accompanying notes 1 to 28 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of comprehensive income (unaudited) for the three-month period ended 31 March

	31 March 2021 AED'000	31 March 2020 AED'000
Loss for the period	**(122,143)**	(163,007)
Other comprehensive income items		
Items that will not be reclassified subsequently to the condensed consolidated interim statement of profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income	**10,674**	(26,339)
Net changes in fair value of own credit risk on financial liabilities designated at fair value through profit or loss	**624**	75,901
Other comprehensive income for the period	**11,298**	49,562
Total comprehensive loss for the period	**(110,845)**	(113,445)
Attributable to:		
Equity holders of the Bank	**(110,630)**	(113,232)
Non-controlling interests	**(215)**	(213)
Total comprehensive loss for the period	**(110,845)**	(113,445)

The accompanying notes 1 to 28 form an integral part of these condensed consolidated interim financial statements.

Bank of Sharjah P.J.S.C.

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

	Share capital AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General and impairment reserve AED'000	Changes in fair value reserve AED'000	Accumulated losses 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 2020 (audited)	**2,100,000**	**1,050,000**	**640,000**	**293,109**	**(682,249)**	**(291,984)**	**3,108,876**	**20,220**	**3,129,096**
Loss for the period	-	-	-	-	-	(162,794)	(162,794)	(213)	(163,007)
Other comprehensive income	-	-	-	-	49,562	-	49,562	-	49,562
Total comprehensive income/(loss) for the period	-	-	-	-	49,562	(162,794)	(113,232)	(213)	(113,445)
Transfer from impairment reserves	-	-	-	(9,869)	-	9,869	-	-	-
Balance at 31 March 2020 (unaudited)	**2,100,000**	**1,050,000**	**640,000**	**283,240**	**(632,687)**	**(444,909)**	**2,995,644**	**20,007**	**3,015,651**
Balance at 1 January 2021 (audited)	2,100,000	1,050,000	640,000	288,962	(740,095)	(182,157)	3,156,710	8,707	3,165,417
Loss for the period	-	-	-	-	-	(121,928)	(121,928)	(215)	(122,143)
Other comprehensive income	-	-	-	-	11,298	-	11,298	-	11,298
Total comprehensive income/(loss) for the period	-	-	-	-	11,298	(121,928)	(110,630)	(215)	(110,845)
Hyperinflation impact	-	-	-	-	-	265,273	265,273	-	265,273
Transfer to impairment reserve	-	-	-	63,962	-	(63,962)	-	-	-
Directors fees	-	-	-	-	-	(3,306)	(3,306)	-	(3,306)
Balance at 31 March 2021 (unaudited)	**2,100,000**	**1,050,000**	**640,000**	**352,924**	**(728,797)**	**(106,080)**	**3,308,047**	**8,492**	**3,316,539**

The accompanying notes 1 to 28 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

	2021 AED'000	2020 AED'000
Cash flows from operating activities		
Net loss before tax for the year	**(107,058)**	(155,828)
Adjustments for:		
Depreciation of property and equipment	**16,708**	6,047
Amortisation of other intangible assets	**1,282**	312
Amortisation of premium/(discount) on debt instruments	**661**	(237)
Gain on sale on fixed assets	**-**	(1,006)
Net fair value loss on issued debt securities	**22,809**	19,202
Net fair value gain on interest rate swaps	**(22,809)**	(19,202)
Net fair value (gain)/loss on other financial assets	**(7,490)**	63,636
Unrealized loss on assets acquired in settlement of debts	**3,465**	-
Net impairment (reversal)/loss on financial assets	**(110)**	184,365
Dividends income	**(962)**	(16,187)
Loss on monetary position	**201,321**	-
Operating profit before changes in operating assets and liabilities	**107,817**	81,102
Changes in		
Deposits and balances due from banks maturing after three months	**27,548**	-
Statutory deposits with central banks	**379,974**	(127,771)
Loans and advances	**(436,746)**	(918,948)
Other assets	**(161,667)**	(188,194)
Customers' deposits	**382,130**	528,352
Other liabilities	**72,648**	60,586
Cash generated from/(used in) operations	**371,704**	(564,873)
Payment of directors' remuneration	**(3,306)**	-
Net cash generated from/(used in) operating activities	**368,398**	(564,873)
Cash flows from investing activities		
Purchase of property and equipment	**(1,353)**	(893)
Proceeds from sale of property and equipment	**-**	11,888
Purchase of investments	**-**	38,191
Additions to investment properties	**(42,450)**	(27,111)
Proceeds from sale of investments	**15,805**	65,811
Dividends received	**962**	16,187
Net cash (used in)/generated from investing activities	**(27,036)**	104,073
Cash flows from financing activities		
Issued bond	**459,125**	-
Payment of lease liabilities	**(10,046)**	(14,486)
Net cash generated from/(used in) financing activities	**449,079**	(14,486)
Net increase/(decrease) in cash and cash equivalents	**790,441**	(475,286)
Cash and cash equivalents at the beginning of the period	**1,358,191**	4,034,393
Cash and cash equivalents at the end of the period (Note 21)	**2,148,632**	3,559,107

The accompanying notes 1 to 28 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 2021

1. General information

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

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through eight branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying condensed consolidated interim financial 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 as amended by the Federal Decretal Law No. 26 of 2020 issued on 27 September 2020 and the Decretal Federal Law No. (14) of 2018.

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 2020.

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 2020. In addition, the results for the period from 1 January 2021 to 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

Basis of measurement

The Lebanese economy is considered to be hyperinflationary. Accordingly, the results, cash flows and the financial position of the Emirates Lebanon Bank SAL have been expressed in terms of the measuring unit current at the reporting date.

3. Application of new and revised Standards

3.1 New and amended IFRS Standards that are effective for the current year

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2021.

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3. Application of new and revised Standards (continued)

3.1 New and amended IFRS Standards that are effective for the current year (continued)

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these condensed consolidated financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these condensed consolidated financial statements.

New and revised IFRS	Summary
Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases)	The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.
Amendments to IFRS 16 *Leases* relating to Covid-19-Related Rent Concessions	The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2021.

3.2 New and revised IFRS in issue but not yet effective and not early adopted

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 16 *Property, Plant and Equipment* relating to Proceeds before Intended Use The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	1 January 2022

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

3. Application of new and revised Standards (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2018 – 2020 Makes amendments to the following standards: • IFRS 1 First-Time Adoption of International Financial Reporting Standards – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • IFRS 9 Financial Instruments – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. • IFRS 16 Leases – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. • IAS 41 Agriculture – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.	1 January 2022
Amendments to IFRS 3 *Business Combinations* relating to Reference to the Conceptual Framework The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* relating to Onerous Contracts - Cost of Fulfilling a Contract The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).	1 January 2022

3. Application of new and revised Standards (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.	1 January 2023
Amendments to IFRS 17 *Insurance Contracts* Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are: • Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. • Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk. • Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination. • Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level. • Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements. • Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives. • Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held. • Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts. • Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.	1 January 2023
Amendments to IAS 1 *Presentation of Financial Statements* relating to Classification of Liabilities as Current or Non-Current The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.	1 January 2023

3. Application of new and revised Standards (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 4 *Insurance Contracts* Extension of the Temporary Exemption from Applying IFRS 9 The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.	1 January 2023
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.	1 January 2023
Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.	1 January 2023
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures (2011)* relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

The Group anticipates that these new standards, interpretations and amendments will be adopted in the Group's condensed consolidated interim financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the condensed consolidated interim financial statements of the Group in the period of initial application.

3.3 Critical accounting judgments and key sources of estimation of uncertainty

The preparation of 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 applied to the consolidated financial statements for the year ended 31 December 2020.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

4. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2020.

5. Basis of consolidation

These condensed consolidated interim financial statements incorporate the condensed interim financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

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

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

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

Name of Subsidiary	**Proportion of ownership interest**		**Year of incorporation**	**Year of acquisition**	**Country of incorporation**	**Principal activities**
	2021	2020				
Emirates Lebanon Bank S.A.L.	**100%**	100%	1965	2008	Lebanon	Financial institution
El Capital FZC	**100%**	100%	2007	2017	U.A.E.	Investment in a financial institution
BOS Real Estate FZC	**100%**	100%	2007	2007	U.A.E.	Real estate development activities
BOS Capital FZC	**100%**	100%	2007	2007	U.A.E.	Investment
Polyco General Trading L.L.C.	**100%**	100%	2008	2008	U.A.E.	General trading
Borealis Gulf FZC	**100%**	100%	2010	2010	U.A.E.	Investment & Real estate development activities
BOS Funding Limited	**100%**	100%	2015	2015	Cayman Islands	Financing activities
Muwaileh Capital FZC	**90%**	90%	2010	2017	U.A.E.	Developing of real estate & related activities
BOS Repos Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities
BOS Derivatives Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities

6. Cash and balances with central banks

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Cash on hand	**140,264**	163,768
Statutory deposits (note 6.1)	**748,292**	1,128,266
Current accounts	**4,515,146**	3,720,562
Certificates of deposits	**1,097,336**	1,231,611
	6,501,038	6,244,207
Expected credit losses	**(707,118)**	(710,108)
	5,793,920	5,534,099

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Banks abroad	**3,795,488**	4,056,630
Banks in the U.A.E.	**2,705,550**	2,187,577
	6,501,038	6,244,207
Expected credit losses	**(707,118)**	(710,108)
	5,793,920	5,534,099

6.1 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 2021, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 172 million (31 December 2020: AED 434 million).

7. Deposits and balances due from banks

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Demand	**280,068**	123,631
Time	**6,774**	7,032
	286,842	130,663
Expected credit losses	**(1,637)**	(1,617)
	285,205	129,046

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Banks abroad	**258,600**	114,563
Banks in the U.A.E.	**28,242**	16,100
	286,842	130,663
Expected credit losses	**(1,637)**	(1,617)
	285,205	129,046

8. Reverse-repo placements

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Banks in the U.A.E.	**-**	115,386
	-	115,386
Expected credit losses	**-**	(1,152)
	-	114,234

As at 31 December 2020, the Group had entered into reverse-repo agreements under which bonds with fair value of AED 113 million were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties. These reverse-repo agreements were matured during the three month period ended 31 March 2021.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

9. Loans and advances, net

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Overdrafts	**5,855,966**	5,797,403
Commercial loans	**11,929,862**	11,487,866
Bills receivable	**2,892,812**	2,943,203
Other advances	**1,187,377**	1,171,088
Gross amount of loans and advances net of interest in suspense	**21,866,017**	21,399,560
Less: Allowance for impairment	**(1,986,581)**	(1,943,953)
Net loans and advances	**19,879,436**	19,455,607

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Loans and advances resident in the U.A.E.	**18,692,419**	18,502,625
Loans and advances non-resident in Lebanon	**1,841,973**	1,666,555
Loans and advances non-resident others	**1,331,625**	1,230,380
	21,866,017	21,399,560

(c) **Impairment reserve**

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

	Bank 31 March 2021 AED'000 (unaudited)	Bank 31 December 2020 AED'000 (audited)
Impairment reserve – Specific		
Specific provisions and interest in suspense under Circular 28/2010 of CBUAE	**1,459,481**	1,459,501
Stage 3 provisions under IFRS 9*	**1,830,588**	1,756,299
Specific provision transferred to the impairment reserve	**-**	-

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

9. Loans and advances, net (continued)

(c) Impairment reserve (continued)

	Bank 31 March 2021 AED'000 (unaudited)	Bank 31 December 2020 AED'000 (audited)
Impairment reserve – Collective		
Collective provisions under Circular 28/2010 of CBUAE	**347,419**	317,264
Stage 1 and Stage 2 provisions under IFRS 9*	**94,495**	128,302
Collective provision transferred to the impairment reserve	**252,924**	188,962

As at 31 March 2021, AED 64 million are transferred from retained earnings to impairment reserve (31 March 2020: AED 10 million were transferred from impairment reserve to retained earnings).

* Provisions in accordance with IFRS 9, are determined based on CB UAE classification of loans and advances.

10. Investments measured at fair value and amortised cost

(a) The analysis of the Group's investments is as follows:

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Investments measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	**130,322**	121,760
	130,322	121,760
(ii) Investments measured at FVTOCI		
Quoted equity	**105,492**	94,818
Unquoted equity	**175,037**	175,042
Debt securities	**99,683**	99,680
Expected credit losses	**(70,322)**	(70,322)
	309,890	299,218
Total investments measured at fair value	**440,212**	420,978
Investments measured at amortised cost		
Debt securities	**4,337,621**	4,354,187
Expected credit losses	**(109,728)**	(113,354)
	4,227,893	4,240,833
Total Investments	**4,668,105**	4,661,811

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

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

(a) The analysis of the Group's investments is as follows: (continued)

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).

Included in the debt securities measured at amortised cost are sukuk with the fair value of AED 2,886 million (31 December 2020 - AED 2,997 million) are given as collateral against borrowings under repo agreements (Note 14).

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
United Arab Emirates	**4,433,205**	4,402,156
Middle East (other than G.C.C. countries)	**414,830**	425,720
Europe	**120**	17,611
	4,848,155	4,845,487
Expected credit losses	**(180,050)**	(183,676)
	4,668,105	4,661,811

11. Other assets

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Acceptances – contra (Note 15)	**770,419**	674,155
Interest receivable	**52,427**	41,150
Prepayments	**22,073**	10,580
Clearing receivables and accrued income	**6,283**	9,623
Other	**154,286**	132,740
	1,005,488	868,248

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

12. Customers' deposits

The analysis of customers' deposits is as follows:

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Current and other accounts	**5,077,505**	4,619,779
Saving accounts	**845,890**	897,183
Time deposits	**18,131,320**	18,155,622
	24,054,715	23,672,584

13. Deposits and balances due to banks

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Demand	**86,301**	65,915
Time	**180,000**	175,000
	266,301	240,915

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Banks in the U.A.E.	**213,881**	237,614
Banks abroad	**52,420**	3,301
	266,301	240,915

14. Repo borrowing

The analysis of the repo borrowing agreements is as follows:

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Banks in the U.A.E.	**2,328,160**	2,438,842
	2,328,160	2,438,842

The Group entered into repo agreements under which sukuk with fair value of AED 2,886 million (31 December 2020: AED 2,997 million) were given as collateral against borrowings. The risks and rewards relating to these bonds remain with the Group (Note 10). Included in the repo borrowing is AED 334 million related to Zero Cost Facility borrowed from CB UAE under the TESS program (31 December 2020: AED 334 million).

15. Other liabilities

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Acceptances – contra (Note 11)	**770,419**	674,155
Accrued expenses and others	**317,374**	293,894
Interest payable	**197,336**	233,450
ECL on unfunded exposure	**100,933**	131,529
Lease liabilities	**76,654**	86,700
Clearing balances	**64,191**	72,623
Managers' cheques	**52,941**	19,231
Deferred tax liability	**51,290**	41,697
Provision for employees' end of service benefits	**49,956**	48,056
Unearned income	**42,823**	54,505
	1,723,917	1,655,840

16. Issued Bonds

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 points, to yield 4.23%. The Notes were issued under the Bank's Euro Medium Term Note ("EMTN") Programme which is listed on the Irish Stock Exchange.

On 8 August 2019, the Bank issued Senior Unsecured Floating Rate Notes, totalling USD 120 million (equivalent to AED 440.76 million) for a three-year maturity at three-month Libor plus 190 basis points, classified at amortized cost. The Notes were issued under the EMTN Programme.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

16. Issued Bonds (continued)

On 11 September 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 600 million (equivalent to AED 2,204 million) for a five-year maturity at mid swaps plus 250 basis points, to yield 4.015%, classified at amortized cost. The Notes were issued under the Bank's EMTN Programme which is listed on the Irish Stock Exchange.

On 4 November 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling CHF 100 million (equivalent to AED 415 million) for a four-year maturity at mid swaps plus 205 basis points, to yield 1.4575%, classified at amortized cost. The Notes are listed on the SIX Swiss Exchange and were issued under the Bank's EMTN Programme.

On 15 February 2021, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 125 million (equivalent to AED 459.125 million) for a one-year maturity at mid swaps plus 180 basis points, to yield 2.0%, classified at amortized cost. The Notes were issued under the Bank's EMTN Programme.

The General Assembly on 3 June 2021, approved to renew the Bank's EMTN programme of USD 2.5 billion.

17. Net impairment loss on financial assets and credit risk

Allocation of impairment loss as of 31 March 2021 and 31 December 2020 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 March 2021 (unaudited)				
Cash and balances with central banks	**-**	**-**	**707,118**	**707,118**
Deposits and balances due from banks	**1,626**	**11**	**-**	**1,637**
Loans and advances	**203,300**	**742,253**	**1,041,028**	**1,986,581**
Investments measured at FVOCI	**-**	**-**	**70,322**	**70,322**
Investments measured at amortised cost	**2,409**	**-**	**107,319**	**109,728**
Unfunded exposure	**6,831**	**2,641**	**91,461**	**100,933**
Total	**214,166**	**744,905**	**2,017,248**	**2,976,319**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2020 (audited)				
Cash and balances with central banks	-	-	710,108	710,108
Deposits and balances due from banks	1,481	136	-	1,617
Reverse repurchase agreements	1,152	-	-	1,152
Loans and advances	289,678	760,970	893,305	1,943,953
Investments measured at FVOCI	-	-	70,322	70,322
Investments measured at amortised cost	4,086	-	109,268	113,354
Unfunded exposure	4,762	12,522	114,245	131,529
Total	**301,159**	**773,628**	**1,897,248**	**2,972,035**

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

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

The movement in impairment loss by financial asset category during the period ended 31 March 2021 is as follows:

	Opening balance AED'000	**Net charge / (reversal) during the period AED'000**	**Direct write offs/ (recovery) AED'000**	**Closing balance AED'000**	Net charge during the period ended 31 March 2020 AED'000
Cash and balances with central banks	**710,108**	**(2,990)**	**-**	**707,118**	116,944
Deposits and balances due from banks	**1,617**	**20**	**-**	**1,637**	(5,189)
Reverse-repo placements	**1,152**	**(1,152)**	**-**	**-**	(422)
Loans and advances	**1,943,953**	**42,628**	**(4,386)**	**1,986,581**	308
Investments measured at FVOCI and amortised cost	**183,676**	**(3,626)**	**-**	**180,050**	59,009
Unfunded exposure	**131,529**	**(30,596)**		**100,933**	8,661
Others	**-**	**-**	**-**	**-**	5,054
Total	**2,972,035**	**4,284**	**(4,386)**	**2,976,319**	184,365

The hyperinflation effect related to expected credit losses charge is negative AED 8,000 (2019: Nil).

The macro economic environment of a subsidiary in Lebanon

Starting from the last quarter of 2019, Lebanon has been facing a political and economic instability. In order to protect the system and to mitigate the risks of the crisis, Lebanese banks have reviewed the limits on withdrawing US Dollars and restricted all international outgoing transfers to basic necessities. In addition to that, on 4 December 2019, the Central Bank of Lebanon issued a new circular which requires Lebanese banks to impose new caps on interest rates on deposits and pay depositors half the interest due on foreign currency holdings in Lebanese Pound. With a significant debt to GDP ratio, Lebanon's external debt has risen significantly, and it is facing turmoil. The sovereign credit risk rating started to witness consecutive downgrading by all major rating agencies to reach the level of default on 7 March 2020, when the Lebanese Government announced that it will withhold payment on the bonds due on 9 March 2020, followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds. This led to a further deterioration in the market value of Lebanese Government bonds to reach junk status. The market value of all the other financial assets has also been adversely impacted.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

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

Furthermore, sharp fluctuation in the foreign currency exchange rate and the creation of parallel markets with a wide range of price variances were witnessed in comparison to the official peg of LBP1,507.50 to the US Dollar.

Starting 2020, the limitation on the USD Dollars have evolved whereby:

- These electronic dollars, being the pre-crisis dollar deposits in commercial banks, are restricted and non-transferable, and are subject to severe capital controls and can only be withdrawn in Lebanese Pounds at the e-board rate and in limited quantities; transferred within the domestic banking system.

- The dollar banknote and new dollar deposits (fresh dollars) are non-restricted and transferable. Most businesses need to access this dollar in order to import consumption and capital goods.

As a result of the above, these condensed consolidated interim financial statements have reflected adjustments including an increase in expected credit losses (and respective staging).

The Group continues to monitor the situation closely and the subsidiary continues to operate and has support from the Group.

Sensitivity of consolidated financial statements to LBP exchange rates

As explained above, assets and liabilities of Emirates Lebanon Bank S.A.L. as of 31 March 2021 and 31 December 2020 are included in the condensed consolidated interim financial statements of the Group and converted into the AED, which is pegged to the USD, at the official exchange rate of USD1 = LBP1,507.5 which significantly varies from the Central Bank of Lebanon ("BDL") platform rate of USD1 =LBP3,900 (not widely used) or exchange rates in the parallel markets (available via various mechanisms) which amounted to USD1 =LBP 12,200 as at 31 March 2021 and USD1= LBP 8,412.5 as at 31 December 2020.

Below is a sensitivity analysis showing the effect on the condensed consolidated interim financial statements of the Group of converting the assets, liabilities and items of profit or loss of Emirates Lebanon Bank S.A.L. as at and for the period/year ended 31 March 2021 and 31 December 2020, respectively, at the BDL Platform rate and parallel markets rate as of period/year-end.

Exchange rate applied AED' 000	**Change in total assets AED' 000**	**Change in total liabilities AED' 000**	**Change in net profit AED' 000**	**Change in equity AED' 000**
USD1 = LBP 3,900	(805,889)	(245,462)	136,290	(560,427)
USD1 = LBP 12,200	(1,151,349)	(350,684)	194,714	(800,665)

18. Transactions with owners and directors of the Group

Bank of Sharjah

Dividends
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2020, held on 3 June 2021, the shareholders approved no cash dividends distribution (2019: no cash dividend distribution).

Directors' remuneration
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2020, held on 3 June 2021, the shareholders of the Bank approved no Directors' remuneration (2019: no Directors' remuneration).

Charity donations
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2020, held on 3 June 2021, the shareholders approved charitable donations of AED 7.5 million (2019: AED 7.5 million).

Transfer to reserves
At the Annual General Meeting of the shareholders held on 3 June 2021, the shareholders approved a transfer of AED 100 million from the General Reserve to Paid Up Capital as Bonus issue for 2020 of 4.76%, subject to the approval of the concerned authorities (2019: no appropriation to contingency reserves).

Emirates Lebanon Bank

Cash dividend
At the Annual General Meeting for approval of the financial statements of 31 December 2020, held on 26 February 2021 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved no cash dividend distribution (2019: no cash dividend distribution).

19. Loss per share

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

	Three-months period ended 31 March	
	2021 (unaudited)	2020 (unaudited)
Loss attributable to owners of the Bank for the period (AED'000)	**(121,928)**	(162,794)
Loss available to the owners of the Bank (AED'000)	**(121,928)**	(162,794)
Weighted average number of shares outstanding during the period (in thousands shares)	**2,100,000**	2,100,000
Basic loss per share (AED)	**(0.058)**	(0.078)

As at 31 March 2021 and 31 March 2020, there were no potential dilutive shares outstanding.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

20. Commitments and contingent liabilities

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Financial guarantees for loans	**279,996**	295,439
Other guarantees	**2,046,376**	2,277,640
Letters of credit	**1,159,824**	1,375,540
	3,486,196	3,948,619
Irrevocable commitments to extend credit	**1,449,823**	1,454,998
	4,936,019	5,403,617

21. Cash and cash equivalents

	31 March 2021 AED'000 (unaudited)	31 March 2020 AED'000 (unaudited)
Cash and balances with central banks (Note 6)	**6,501,038**	6,032,649
Deposits and balances due from banks (Note 7)	**286,842**	305,746
Deposits and balances due to banks (Note 13)	**(266,301)**	(242,624)
Repo borrowings (Note 14)	**(2,328,160)**	-
	4,193,419	6,095,771
Less: Deposits with central banks and balances due from banks - original maturity more than three months	**(1,296,495)**	(1,324,042)
Less: Statutory deposits with central banks [Note 6(a)]	**(748,292)**	(1,212,622)
	2,148,632	3,559,107

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.

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

22. Related party transactions (continued)

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Loans and advances	**683,249**	704,331
Letters of credit, guarantee and acceptances	**2,077**	4,023
	685,326	708,354
Collateral deposits	**10,965**	15,500
Net exposure	**674,361**	692,854
Other deposits	**3,161,122**	3,136,976

	Three-months period ended 31 March	
	2021 AED'000 (unaudited)	2020 AED'000 (unaudited)
Interest income	**10,996**	14,132
Interest expense	**2,080**	3,136

Compensation of Directors and key management personnel:

	2021 AED'000	2020 AED'000
Short term benefits	**4,140**	4,140
End of service benefits	**212**	161
Total compensation	**4,352**	4,301

23. 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.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 31 March 2021 (continued)

23. Segmental information (continued)

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
31 March 2021 (unaudited):				
Segment assets	**26,381,485**	**5,868,368**	**4,838,464**	**37,088,317**
Segment liabilities	**27,419,594**	**5,376,756**	**975,428**	**33,771,778**
31 December 2020 (audited):				
Segment assets	25,426,008	5,950,908	4,766,574	36,143,490
Segment liabilities	27,026,496	4,953,950	997,627	32,978,073

The following table presents information regarding the Group's operating segments for the three-months period ended 31 March 2021 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated* AED'000	Total AED'000
Revenue from external customers				
-Net interest income	**94,948**	**18,265**	**-**	**113,213**
-Net fee and commission income	**41,635**	**-**	**-**	**41,635**
-Exchange loss	**1,054**	**-**	**-**	**1,054**
-Income on investments	**-**	**11,898**	**-**	**11,898**
-Other income	**12,523**	**-**	**-**	**12,523**
Operating income	**150,160**	**30,163**	**-**	**180,323**
Other material non-cash items				
-Net impairment (loss)/reversal on financial assets	**(6,506)**	**6,616**	**-**	**110**
- Monetary adjustment	**-**	**-**	**(201,321)**	**(201,321)**
-Depreciation of property and equipment	**-**	**-**	**(16,708)**	**(16,708)**
-General and administrative expenses	**(57,953)**	**(10,227)**	**-**	**(68,180)**
-Amortization of intangible assets	**-**	**-**	**(1,282)**	**(1,282)**
-Income tax expense– overseas	**-**	**-**	**(15,085)**	**(15,085)**
Profit/(loss) for the period	**85,701**	**26,552**	**(234,396)**	**(122,143)**

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

23. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the three-months period ended 31 March 2020 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated* AED'000	Total AED'000
Revenue from external customers				
-Net interest income	96,210	5,630	-	101,840
-Net fee and commission income	28,593	-	-	28,593
-Exchange profit	(1,856)	-	-	(1,856)
-Loss on investments	-	(47,785)	-	(47,785)
-Other income	-	5,437	5,729	11,166
Operating income	122,947	(36,718)	5,729	91,958
Other material non-cash items				
-Net impairment charge on financial assets	(8,432)	(175,933)	-	(184,365)
-Depreciation of property and equipment	-	-	(6,047)	(6,047)
-General and administrative expenses	(48,503)	(8,559)	-	(57,062)
-Amortization of intangible assets	-	-	(312)	(312)
- Income tax expense– overseas	-	-	(7,179)	(7,179)
Profit/(loss) for the period	66,012	(221,210)	(7,809)	(163,007)

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

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (31 March 2020: 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 2020.

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.

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:

2021	**Country of domicile AED'000**	**Foreign AED'000**	**Total AED'000**
Operating income (from external customers) for the three month period ended 31 March 2021 (unaudited)	**127,018**	**53,305**	**180,323**
Non-current assets as at 31 March 2021 (unaudited)	**5,201,392**	**601,006**	**5,802,398**
2020			
Operating income (from external customers) for the three month period ended 31 March 2020 (unaudited)	37,683	54,275	91,958
Non-current assets as at 31 March 2020 (unaudited)	5,323,554	380,670	5,704,224

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 2021.

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 nine-month period ended 31 March 2021 (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.

		31 March 2021		31 December 2020	
	Level	**Carrying amount AED'000**	**Fair value AED'000**	Carrying amount AED'000	Fair value AED'000
Financial assets					
- Investments measured at amortised cost	**3**	**4,227,893**	**4,336,760**	4,240,833	4,242,127
- Loans and advances	**3**	**19,879,436**	**19,879,436**	19,455,607	19,455,607
Financial liabilities					
- Customers' deposits	**2**	**24,054,715**	**24,054,715**	23,672,584	23,672,584
- Issued Bonds	**2**	**3,489,257**	**3,610,928**	3,057,269	3,167,603

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

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

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

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 31 March 2021 (continued)

24. Fair value of financial instruments (continued)

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 March 2021 (unaudited)				
Investments measured at fair value				
Investment measured at FVTPL				
Quoted equity	**130,322**	**-**	**-**	**130,322**
Investments carried at FVTOCI				
Quoted equity	**105,492**	**-**	**-**	**105,492**
Unquoted equity	**-**	**-**	**175,037**	**175,037**
Unquoted debt securities	**-**	**29,361**	**-**	**29,361**
Total	**235,814**	**29,361**	**175,037**	**440,212**
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	**1,887,500**	**-**	**-**	**1,887,500**
Other assets /liabilities				
Positive fair value of derivatives	**-**	**30,605**	**-**	**30,605**
Negative fair value of derivatives	**-**	**(21,929)**	**-**	**(21,929)**
At 31 December 2020 (audited)				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	121,760	-	-	121,760
Investments carried at FVTOCI				
Quoted equity	94,818	-	-	94,818
Unquoted equity	-	-	175,042	175,042
Unquoted debt securities	-	29,358	-	29,358
Total	216,578	29,358	175,042	420,978
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	1,896,682	-	-	1,896,682
Other assets /liabilities				
Positive fair value of derivatives	-	49,730	-	49,730
Negative fair value of derivatives	-	(15,941)	-	(15,941)

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 31 March 2021 (continued)

24. Fair value of financial instruments (continued)

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

	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Opening balance	**175,042**	209,252
Losses recognised in other comprehensive income	**(5)**	(34,210)
Closing balance	**175,037**	175,042

25. Capital adequacy

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

	Basel III	
	31 March 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Capital base		
Tier 1 capital	**2,721,697**	2,723,616
Tier 2 capital	**344,804**	339,773
Total capital base	**3,066,501**	3,063,389
Risk-weighted assets:		
Credit risk	**27,584,302**	27,181,855
Market risk	**292,853**	266,517
Operational risk	**1,149,361**	1,149,361
Total risk-weighted assets	**29,026,516**	28,597,733
Capital ratios		
Common equity Tier 1 capital ratio	**9.38%**	9.52%
Tier 1 capital ratio	**9.38%**	9.52%
Total capital ratio	**10.56%**	10.71%

26. Covid-19 and Expected Credit Loss (ECL)

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In response, governments and central banks have launched economic support and relief measures (including payment reliefs) to minimize the impact on individuals and corporates.

In the determination of Q1 2021 ECL, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the Covid-19 pandemic and taken into account the economic support and relief measures of governments and central banks. The Group has also considered the notices issued by the Central Bank of UAE with regards to the Targeted Economic Support Scheme (TESS) and guidance issued by the International Accounting Standards Board (IASB) on 27 March 2020 which was extended till 30 June 2021.

Significant increase in Credit Risk (SICR)

Under IFRS 9, loans are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a SICR since origination. A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or longer term.

During 2020, the Group has initiated a programme of payment relief for its impacted customers by deferring interest/principal due for a period of one month to nine months. These payment reliefs are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs do not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the Covid-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers’ short term liquidity constraints and a change in its lifetime credit risk. This approach is consistent with the expectations of the Central Bank of UAE as referred to in the TESS notice.

The accounting impact of the onetime extension of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

Forward Looking Information

In light of the current uncertain economic environment, the Group has assessed a range of possible macroeconomic scenarios and associated weightings, and analysed their impact on ECL estimates accordingly. The Group has incorporated Covid-19 impacted variables into its IFRS 9 calculations, including updated macro – economic forecasts, to reflect the impact of Covid-19.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Analysis of clients benefitting from payment deferrals

Zero Cost Funding under the CBUAE TESS program availed by the Group amounts to AED 334 million to provide payment relief to the impacted customers.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 31 March 2021 (continued)

26. Covid-19 and Expected Credit Loss (ECL) (continued)

Analysis of clients benefitting from payment deferrals (continued)

As per the requirements of the Central Bank of UAE, the Group has divided its customers benefitting from payment deferrals into two groups as follows:

Group 1: includes those customers that are not expected to face substantial changes in their creditworthiness, beyond liquidity issues and are temporarily and mildly impacted by the Covid-19 crisis.

For these clients, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers will remain in their current IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever is shorter.

Group 2: includes those customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration. The Group continue to monitor the creditworthiness of these customers, particularly indications of potential inability to pay any of their obligations as and when they become due.

Table 1(a): Deferrals information at beginning of the period

Scope: Clients benefiting from deferrals in 2021 (TESS clients and non-TESS clients)

Portfolio date: 1 January 2021

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	36	4,031	32,422	330
Total retail banking			**36**	**4,031**	**32,422**	**330**
Wholesale banking	Stage 1	Group 1	18	532,359	3,748,916	35,761
		Group 2	8	12,056	36,955	116
			26	**544,415**	**3,785,871**	**35,877**
	Stage 2	Group 1	8	100,035	605,492	114,871
		Group 2	10	213,963	1,331,944	196,305
			18	**313,998**	**1,937,436**	**311,176**
Total wholesale banking			**44**	**858,413**	**5,723,307**	**347,053**

Notes to the condensed consolidated interim financial statements for the nine-month period ended 31 March 2021 (continued)

26. Covid-19 and Expected Credit Loss (ECL) (continued)

Table 1(b): Deferrals information during the period

Scope: Clients benefiting from deferrals in 2021 (TESS clients and non-TESS clients)

Portfolio date: 31 March 2021

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	32	4,991	32,485	224
Total retail banking			**32**	**4,991**	**32,485**	**224**
Wholesale banking	Stage 1	Group 1	19	410,077	3,651,121	33,376
		Group 2	7	15,127	36,797	98
			26	**425,204**	**3,687,918**	**33,474**
	Stage 2	Group 1	7	12,933	517,734	81,517
		Group 2	8	219,850	1,214,457	212,333
			15	**232,783**	**1,732,191**	**293,850**
Total wholesale banking			**41**	**657,987**	**5,420,109**	**327,324**

26. Covid-19 and Expected Credit Loss (ECL) (continued)

Table 2a: Stage migration for the three-month period ended 31 March 2021

Scope: All clients
Migration during the quarter

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking loans								
As of 1 January 2021	286,228	3,816	10,385	79	8,890	3,460	305,503	7,355
Transfers from stage 1 to stage 2	(24,078)	-	24,078	-	-	-	-	-
Transfers from 1&2 to stage 3	(335)	-	(51)	-	386	-	-	-
Change in exposure	(42,671)	-	3,985	-	(9)	-	(38,695)	-
Other movements	6,680	(1,001)	206	(31)	88	344	6,974	(688)
As of 31 March 2021	225,824	2,815	38,603	48	9,355	3,804	273,782	6,667
Wholesale banking loans								
As of 1 January 2021	10,452,106	285,862	5,796,364	760,891	3,078,617	889,845	19,327,087	1,936,598
Transfers from stage 1 to stage 2	(79,304)	(1,489)	79,304	1,489	-	-	-	-
Transfers from stage 2 to stage 1	481,502	39,228	(481,502)	(39,228)	-	-	-	-
Transfers from 1&2 to stage 3	(7)	-	(34,870)	-	34,877	-	-	-
Transfers from stage 3	-	-	1,076	186	(1,076)	(186)	-	-
Change in exposure	(155,871)	(37,504)	162,686	(5,443)	62,936	67,667	69,751	24,720
Other movements	2,450,132	(85,612)	4,025	24,310	(258,760)	79,898	2,195,397	18,596
As of 31 March 2021	13,148,558	200,485	5,527,083	742,205	2,916,594	1,037,224	21,592,235	1,979,914
Total	13,374,382	203,300	5,565,686	742,253	2,925,949	1,041,028	21,866,017	1,986,581

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2021 (continued)

26. Covid-19 and expected credit loss (ECL) (continued)

Table 3a: ECL charge/(flow) for the three-month period ended 31 March 2021

Scope: All clients

During the quarter

As at 31 March 2021

	Non-credit impaired		Credit impaired	
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Retail banking loans:				
ECL allowance as of 1 January 2021	3,816	79	3,459	**7,354**
Others	(1,001)	(31)	344	**(688)**
ECL allowance as of 31 March 2021	**2,815**	**48**	**3,803**	**6,666**
Wholesale banking loans:				
ECL allowance as of 1 January 2021	285,862	760,891	889,845	**1,936,598**
Emirates governments	(20)	-	-	**(20)**
GREs (Gov ownership >50%)	(1,829)	-	-	**(1,829)**
Other corporates	(55,458)	7,371	77,937	**29,850**
High net worth individuals	(1,034)	(34,990)	676	**(35,348)**
SMEs	192	8,932	68,767	**77,891**
Others	(27,228)	-	-	**(27,228)**
ECL allowance as of 31 March 2021	**200,485**	**742,204**	**1,037,225**	**1,979,914**
	203,300	**742,252**	**1,041,028**	**1,986,580**

As at 31 March 2020

	Non-credit impaired		Credit impaired	
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Retail banking loans:				
ECL allowance as of 1 January 2021	3,291	53	2,478	**5,822**
Others	853	(53)	(388)	**412**
ECL allowance as of 31 March 2021	**4,144**	**-**	**2,090**	**6,234**
Wholesale banking loans:				
ECL allowance as of 1 January 2021	338,672	605,695	826,161	**1,770,528**
Emirates governments	260	-	-	**260**
GREs (Gov ownership >50%)	(464)	-	-	**(464)**
Other corporates	(84,114)	50,298	14,256	**(19,560)**
High net worth individuals	(16,955)	66,865	(19,749)	**30,161**
SMEs	39,037	8,635	7,615	**55,287**
Others	-	(379)	2,863	**2,484**
ECL allowance as of 31 March 2021	**276,436**	**731,114**	**831,146**	**1,838,696**
	280,580	**731,114**	**833,236**	**1,844,930**

27. Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the three month period ended 31 March 2021 and 31 March 2020.

28. 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 17 June 2021.