

Bank of Sharjah P.J.S.C.

**Review report and
Condensed consolidated interim financial information
for the three-month period ended 31 March 2020**

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 2020, 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.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
The Board of Directors of Bank of Sharjah PJSC (continued)

Other matter

The consolidated financial statements as at 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 8 July 2020. The condensed consolidated interim financial information for the period ended 31 March 2019 was reviewed by another auditor who expressed an unmodified conclusion on this information on 7 July 2019.

Deloitte & Touche (M.E.)

A handwritten signature in black ink, appearing to read "Akbar Ahmad".

Akbar Ahmad
Registration No. 1141
28 October 2020
Dubai
United Arab Emirates

Condensed consolidated interim statement of financial position
As at

	Note	31 March 2020 (unaudited) AED'000	31 December 2019 (audited) AED'000
ASSETS			
Cash and balances with central banks	6	5,617,974	5,808,927
Deposits and balances due from banks	7	300,265	350,287
Reverse-repo placements	8	-	457,291
Loans and advances, net	9	18,890,495	17,735,756
Other financial assets measured at fair value	10	490,460	619,478
Other financial assets measured at amortised cost	10	388,501	452,219
Investment properties		783,148	756,037
Goodwill and other intangibles		136,274	136,587
Assets acquired in settlement of debt		4,157,630	4,044,572
Other assets	11	984,408	994,831
Derivative assets held for risk management		62,231	20,400
Property and equipment		354,881	370,920
Total assets		32,166,267	31,747,305
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	12	21,854,586	21,326,234
Deposits and balances due to banks	13	242,624	42,989
Repo borrowings	14	-	130,230
Other liabilities	15	1,466,857	1,513,253
Derivative liabilities held for risk management		16,945	7,577
Issued bonds	16	5,569,604	5,597,926
Total liabilities		29,150,616	28,618,209
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 other reserves		283,240	293,109
Investment fair value reserve		(632,687)	(682,249)
Accumulated losses		(444,909)	(291,984)
Equity attributable to equity holders of the Bank		2,995,644	3,108,876
Non-controlling interests		20,007	20,220
Total equity		3,015,651	3,129,096
Total liabilities and equity		32,166,267	31,747,305



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Mohammed Bin Saud Al Qasimi
Chairman



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Varouj Nerguizian
General Manager

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

	Note	31 March 2020 AED'000	31 March 2019 AED'000
Interest income		322,644	332,436
Interest expense		(220,804)	(213,876)
Net interest income		101,840	118,560
Net fee and commission income		28,593	22,230
Exchange (loss)/profit		(1,856)	3,099
Loss on investments		(47,785)	(1,492)
Other income		11,166	9,611
Operating income		91,958	152,008
Net impairment loss on financial assets	17	(184,365)	(24,587)
Net operating (loss)/income		(92,407)	127,421
General and administrative expenses		(63,109)	(67,252)
Amortisation of intangible assets		(312)	(1,478)
(Loss)/profit before taxes		(155,828)	58,691
Income tax expense - overseas		(7,179)	(7,091)
Net (loss)/profit for the period		(163,007)	51,600
Attributable to:			
Equity holders of the Bank		(162,794)	51,741
Non-controlling interests		(213)	(141)
Net (loss)/profit for the period		(163,007)	51,600
Basic and diluted (loss)/earnings per share (AED)	18	(0.078)	0.025

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

	31 March 2020 AED'000	31 March 2019 AED'000
(Loss)/profit for the period	(163,007)	51,600
Other comprehensive income items		
<i>Items that will not be reclassified subsequently to the 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	(26,339)	774
Net changes in fair value of own credit risk on financial liabilities designated at fair value through profit or loss	75,901	(45,396)
Other comprehensive income/(loss) for the period	49,562	(44,622)
Total comprehensive (loss)/income for the period	(113,445)	6,978
Attributable to:		
Equity holders of the Bank	(113,232)	7,119
Non-controlling interests	(213)	(141)
Total comprehensive (loss)/income for the period	(113,445)	6,978

**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 and other reserves AED'000	Changes in fair value reserve AED'000	(Accumulated losses)/ Retained earnings AED'000	Total equity attributable to equity holders of the Bank AED'000	Non- controlling interests AED'000	Total equity AED'000
Balance at 1 January 2019 (audited)	2,100,000	1,050,000	600,000	250,257	(535,375)	300,324	3,765,206	13,709	3,778,915
Profit for the period	-	-	-	-	-	51,741	51,741	(141)	51,600
Other comprehensive loss	-	-	-	-	(44,622)	-	(44,622)	-	(44,622)
Total comprehensive (loss)/income for the period	-	-	-	-	(44,622)	51,741	7,119	(141)	6,978
Reclassification on disposal of FVOCI investment	-	-	-	-	1,030	-	1,030	-	1,030
Transfer from impairment reserves	-	-	-	(587)	-	587	-	-	-
Effect of adopting IFRS 16	-	-	-	-	-	(3,876)	(3,876)	-	(3,876)
Directors' remuneration	-	-	-	-	-	(3,306)	(3,306)	-	(3,306)
Balance at 31 March 2019 (unaudited)	2,100,000	1,050,000	600,000	249,670	(578,967)	345,470	3,766,173	13,568	3,779,741
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

The accompanying notes 1 to 27 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 2020 AED'000	31 March 2019 AED'000
Cash flows from operating activities			
(Loss)/profit for the period		(163,007)	51,600
Adjustments for:			
Depreciation of property and equipment		6,047	989
Amortisation of other intangible assets		312	1,478
Amortisation of (premium)/ discount on debt instruments		(237)	152
Gain on sale of property and equipment		(1,006)	(615)
Net fair value loss on issued debt securities		19,202	22,229
Net fair value gain on interest rate swaps		(19,202)	(22,229)
Net fair value loss on other financial assets		63,636	2,891
Net impairment loss on financial assets		184,365	24,587
Dividend received		(16,187)	(1,288)
		<u>73,923</u>	<u>79,794</u>
Operating profit before changes in operating assets and liabilities		73,923	79,794
Changes in			
Deposits and balances due from banks maturing after three months		-	(32,874)
Statutory deposits with central banks		(127,771)	42,212
Loans and advances		(1,339,104)	(1,062,327)
Other assets		(188,194)	(217,313)
Customers' deposits		528,352	95,717
Other liabilities		67,765	101,667
		<u>(985,029)</u>	<u>(993,124)</u>
Cash used in operating activities		(985,029)	(993,124)
Payment of directors' remuneration and charity donations		-	(3,306)
		<u>(985,029)</u>	<u>(996,430)</u>
Net cash used in operating activities		(985,029)	(996,430)
Cash flows from financing activities			
Purchase of property and equipment		(893)	(77,723)
Proceeds from sale of property and equipment		11,888	5,182
Addition of investment properties		(27,111)	(56,546)
Sale/(purchase) of other financial assets		38,191	(8,912)
Proceeds from sale of other financial assets		65,811	134,880
Dividend received		16,187	1,288
		<u>104,073</u>	<u>(1,831)</u>
Net cash generated from/(used in) investing activities		104,073	(1,831)
Cash flows from investing activities			
Payment of lease liability		(14,486)	-
		<u>(14,486)</u>	<u>-</u>
Net cash used in financing activities		(14,486)	-
Net decrease in cash and cash equivalents		(895,442)	(998,261)
Cash and cash equivalents at the beginning of the period		4,034,393	3,203,322
		<u>3,138,951</u>	<u>2,205,061</u>
Cash and cash equivalents at the end of the period	19	3,138,951	2,205,061

The accompanying notes 1 to 27 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 2020

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.

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 2019.

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 2019. In addition, the results for the period from 1 January 2020 to 31 March 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

3. Changes in accounting policies, estimates and judgments

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these condensed consolidated interim financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendment to IFRS 3 *Business Combinations* relating to definition of a business.
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to definition of material.
- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments Disclosures* relating to interest rate benchmark reforms.
- Amendments to conceptual framework.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2020 (continued)

3. Changes in accounting policies, estimates and judgments (continued)

3.2 New and revised IFRSs 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.

	Effective for annual periods <u>beginning on or after</u>
<u>New and revised IFRSs</u>	
Amendments to IAS 1 <i>Presentation of Financial Statements</i> regarding the definition of material.	1 January 2022
IFRS 17 <i>Insurance Contract</i>	1 January 2022
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures (2011)</i> relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated 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 2019 except for the estimates and judgements which were impacted by COVID-19 as disclosed in note 24.

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 2019.

5. Basis of consolidation

These consolidated financial statements incorporate the 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.

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

5. Basis of consolidation (continued)

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
	2020	2019				
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

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

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 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Cash on hand	101,622	72,105
Statutory deposits (note 6.1)	1,212,622	1,084,851
Current accounts	2,171,224	2,421,579
Certificates of deposits	2,547,181	2,528,123
	6,032,649	6,106,658
Expected credit losses	(414,675)	(297,731)
	5,617,974	5,808,927

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks abroad	3,246,154	2,648,408
Banks in the U.A.E.	2,786,495	3,458,250
	6,032,649	6,106,658
Expected credit losses	(414,675)	(297,731)
	5,617,974	5,808,927

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 2020, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 514 million (31 December 2019: AED 421 million).

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

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 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Demand	291,240	206,065
Time	14,506	154,892
	305,746	360,957
Expected credit losses	(5,481)	(10,670)
	300,265	350,287

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks abroad	203,710	321,711
Banks in the U.A.E.	102,036	39,246
	305,746	360,957
Expected credit losses	(5,481)	(10,670)
	300,265	350,287

8. Reverse-repo placements

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks abroad	-	-
Banks in the U.A.E.	-	457,713
	-	457,713
Expected credit losses	-	(422)
	-	457,291

As at 31 December 2019, the Group had entered into reverse-repo agreements under which bonds with fair value of AED 460 million were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties. During the three month period ended 31 March 2020 these reverse-repo agreements were matured.

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (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 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Overdrafts	7,478,120	7,301,407
Commercial loans	9,570,529	8,731,786
Bills receivable	1,537,799	1,977,841
Other advances	2,148,977	1,569,344
	<hr/>	<hr/>
Gross amount of loans and advances net of interest in suspense	20,735,425	19,580,378
Less: Allowance for impairment	(1,844,930)	(1,844,622)
	<hr/>	<hr/>
Net loans and advances	<u>18,890,495</u>	<u>17,735,756</u>

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Loans and advances resident in the U.A.E.	17,671,259	16,307,624
Loans and advances non-resident in Lebanon	1,880,977	2,212,732
Loans and advances non-resident others	1,183,189	1,060,022
	<hr/>	<hr/>
	<u>20,735,425</u>	<u>19,580,378</u>

(c) **IFRS 9 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 IFRS 9 reserve. The details of the same are below:

	Bank 31 March 2020 AED'000 (unaudited)	Bank 31 December 2019 AED'000 (audited)
<i>Impairment reserve – Specific</i>		
Specific provisions and interest in suspense under Circular 28/2010 of CBUAE	1,478,367	1,482,602
Stage 3 provisions under IFRS 9	1,659,029	1,559,341
	<hr/>	<hr/>
Specific provision transferred to the impairment reserve under equity	-	-
	<hr/>	<hr/>

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

9. Loans and advances, net (continued)

(c) IFRS 9 reserve (continued)

	Bank 31 March 2020 AED'000 (unaudited)	Bank 31 December 2019 AED'000 (audited)
<i>Impairment reserve – Collective</i>		
Collective provisions under Circular 28/2010 of CBUAE	316,634	293,729
Stage 1 and Stage 2 provisions under IFRS 9	133,394	100,620
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Collective provision transferred to the impairment reserve under equity	183,240	193,109
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10. Other financial assets

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	96,965	159,284
	<hr/>	<hr/>
	96,965	159,284
	<hr/>	<hr/>
(ii) Investments measured at FVTOCI		
Quoted equity	75,810	127,183
Unquoted equity	208,555	209,252
Debt securities	109,130	123,759
	<hr/>	<hr/>
	393,495	460,194
	<hr/>	<hr/>
Total other financial assets measured at fair value	490,460	619,478
	<hr/>	<hr/>
Other financial assets measured at amortised cost		
Debt securities	481,775	486,484
Expected credit losses	(93,274)	(34,265)
	<hr/>	<hr/>
	388,501	452,219
	<hr/>	<hr/>
Total other financial assets	878,961	1,071,697
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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).

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

10. Other financial assets (continued)

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
United Arab Emirates	483,309	586,962
Middle East (other than G.C.C. countries)	448,283	478,358
Europe	40,643	40,642
	972,235	1,105,962
Expected credit losses	(93,274)	(34,265)
	878,961	1,071,697

11. Other assets

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Acceptances – contra (Note 15)	774,347	765,271
Receivable from sale of property	71,220	71,220
Prepayments	24,506	10,521
Interest receivable	24,361	37,616
Clearing receivables and accrued income	18,369	63,492
Other	76,885	51,991
	989,688	1,000,111
Expected credit losses	(5,280)	(5,280)
	984,408	994,831

12. Customers' deposits

The analysis of customers' deposits is as follows:

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Current and other accounts	4,307,910	3,878,614
Saving accounts	1,348,570	1,424,628
Time deposits	16,198,106	16,022,992
	21,854,586	21,326,234

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

13. Deposits and balances due to banks

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Demand	233,325	32,307
Time	9,299	10,682
	<u>242,624</u>	<u>42,989</u>

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks in the U.A.E.	233,310	32,285
Banks abroad	9,314	10,704
	<u>242,624</u>	<u>42,989</u>

14. Repo borrowing

The analysis of the repo borrowing agreements is as follows:

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Banks in the U.A.E.	-	130,230
	<u>-</u>	<u>130,230</u>

As at 31 December 2019, the Group entered into repo agreements under which bonds with fair value of AED 130 million were given as collateral against borrowings. The risks and rewards relating to these bonds remain with the Group. These repo agreements were matured during the three month period ended 31 March 2020.

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

15. Other liabilities

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Acceptances – contra (Note 11)	774,347	765,271
Interest payable	206,607	251,915
ECL on unfunded exposure	130,481	121,820
Accrued expenses and others	119,719	110,352
Lease liabilities	96,762	98,470
Unearned income	70,897	68,587
Provision for employees' end of service benefits	50,423	45,577
Managers' cheques	17,621	51,261
	1,466,857	1,513,253

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 annum payable semi-annually and are listed on the Irish Stock Exchange. On 18 September 2019, the Bank repurchased by way of a Public Tender Offer USD 306.81 million of these bonds at a price of 101. Subsequent to the reporting date on 8 June 2020, these bonds have matured and were fully redeemed.

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 recently established Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

On 08 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 Bank's Euro Medium Term Note (EMTN) Programme.

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

On 29 November 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling CHF 100 million (equivalent of AED 386 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 Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

17. Net impairment loss on financial assets and credit risk

Allocation of impairment loss as of 31 March 2020 and 31 December 2019 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 March 2020 (unaudited)				
Cash and balances with central banks	-	18,622	396,053	414,675
Deposits and balances due from banks	1,271	4,210	-	5,481
Loans and advances	278,397	732,674	833,859	1,844,930
Other financial assets measured at amortised cost	353	-	92,921	93,274
Unfunded exposure	2,598	12,678	115,205	130,481
Other assets	5,280	-	-	5,280
Others	5,054	-	-	5,054
Total	292,953	768,184	1,438,038	2,499,175
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2019 (audited)				
Cash and balances with central banks	297,731	-	-	297,731
Reverse repurchase agreements	10,653	17	-	10,670
Loans and advances	422	-	-	422
Other financial assets measured at amortised cost	409,288	607,198	828,136	1,844,622
Unfunded exposure	34,265	-	-	34,265
Other assets	23,419	2,811	95,590	121,820
Others	5,280	-	-	5,280
Total	781,058	610,026	923,726	2,314,810

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

17. Net impairment loss on financial assets (continued)

The movement in impairment loss by financial asset category during the period ended 31 March 2020 is as follows:

	Opening balance AED'000	Charge during the period AED'000	Reversals during the period AED'000	Recoveries net of write off during the period AED'000	Closing balance AED'000	Net charge during the period ended 31 March 2019 AED'000
Cash and balances with central banks	297,731	116,944	-	-	414,675	(663)
Deposits and balances due from banks	10,670	-	(5,189)	-	5,481	208
Reverse-repo placements	422	-	(422)	-	-	(266)
Loans and advances	1,844,622	10,195	(14,052)	4,165	1,844,930	30,665
Other financial assets measured at amortised cost	34,265	59,007	-	-	93,274	(98)
Unfunded exposure	121,820	8,661	-	-	130,481	(10,217)
Other assets	5,280	-	-	-	5,280	5,280
Others	-	5,054	-	-	5,054	(322)
Total	2,314,810	199,863	(19,663)	4,165	2,499,175	24,587

The macro economic environment of 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 Lira. With a significant debt to GDP ratio, Lebanon's external debt has risen significantly and it is facing turmoil and there is no certainty to when the situation will correct. During the first quarter of 2020, credit rating agencies downgraded the country's credit rating. As a result of the same, 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.

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

18. (Loss)/earnings per share

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

	Three-months period ended 31 March	
	2020 (unaudited)	2019 (unaudited)
(Loss)/profit attributable to owners of the Bank for the period (AED'000)	(162,794)	51,741
(Loss)/profit available to the owners of the Bank (AED'000)	(162,794)	51,741
Weighted average number of shares outstanding during the period (in thousands shares)	2,100,000	2,100,000
Basic (loss)/earnings per share (AED)	(0.078)	0.025

As at 31 March 2020 and 31 March 2019, there were no potential dilutive shares outstanding.

19. Commitments and contingent liabilities

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Financial guarantees for loans	273,798	282,226
Other guarantees	2,575,165	2,581,167
Letters of credit	1,070,983	830,317
Irrevocable commitments to extend credit	3,919,946	3,693,710
	1,840,565	1,626,507
	5,760,511	5,320,217

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

20. Cash and cash equivalents

	31 March 2020 AED'000 (unaudited)	31 March 2019 AED'000 (unaudited)
Cash and balances with central banks (Note 6)	5,617,974	4,210,164
Deposits and balances due from banks (Note 7)	300,265	350,775
Reverse-repo placements (Note 8)	-	1,280,175
Deposits and balances due to banks (Note 13)	(242,624)	(426,039)
Repo borrowings (Note 14)	-	(734,287)
	5,675,615	4,680,788
Less: Deposits with central banks and balances due from banks - original maturity more than three months	(1,324,042)	(1,448,852)
Less: Statutory deposits with central banks [Note 6(a)]	(1,212,622)	(1,026,875)
	3,138,951	2,205,061

21. Related party transactions

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

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

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Loans and advances	791,663	638,554
Letters of credit, guarantee and acceptances	6,300	11,415
	797,963	649,969
Collateral deposits	207,313	7,170
Net exposure	590,650	642,799
Other deposits	108,931	158,669

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

21. Related party transactions (continued)

	Three-months period ended 31 March	
	2020 AED'000 (unaudited)	2019 AED'000 (unaudited)
Interest income	14,132	15,653
Interest expense	3,136	1,588
Compensation of Directors and key management personnel:		
	2020 AED'000	2019 AED'000
Short term benefits	4,140	3,770
Directors fees	-	3,306
End of service benefits	1,453	804
Total compensation	5,593	7,880

22. Segmental information

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

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

- (i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Investment Banking, which involves the management of the Group's investment portfolio.

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

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

22. Segmental information (continued)

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

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
<u>31 March 2020</u> (unaudited):				
Segment assets	24,986,850	2,465,834	4,713,583	32,166,267
Segment liabilities	22,871,557	5,569,604	709,455	29,150,616
<u>31 December 2019</u> (audited):				
Segment assets	24,323,726	2,829,346	4,594,233	31,747,305
Segment liabilities	22,264,725	5,597,926	755,558	28,618,209

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 loss	(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 loss 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)
(Loss)/ profit 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

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

22. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the three-months period ended 31 March 2019 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated* AED'000	Total AED'000
Revenue from external customers				
-Net interest income	109,243	9,317	-	118,560
-Net fee and commission income	22,230	-	-	22,230
-Exchange profit	3,099	-	-	3,099
-Loss on investments	-	(1,492)	-	(1,492)
-Other income	-	3,697	5,914	9,611
Operating income	<u>134,572</u>	<u>11,522</u>	<u>5,914</u>	<u>152,008</u>
Other material non-cash items				
-Net impairment charge on financial assets	(24,587)	-	-	(24,587)
-Depreciation of property and equipment	-	-	(989)	(989)
-General and administrative expenses	(56,323)	(9,940)	-	(66,263)
-Amortization of intangible assets	-	-	(1,478)	(1,478)
- Income tax expense– overseas	-	-	(7,091)	(7,091)
Profit for the period	<u><u>53,662</u></u>	<u><u>1,582</u></u>	<u><u>(3,644)</u></u>	<u><u>51,600</u></u>

* *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 2019: 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 2019.

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 2020 (continued)**

22. Segmental information (continued)

Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Country of domicile AED'000	Foreign AED'000	Total AED'000
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
2019			
Operating income (from external customers) for the three month period ended 31 March 2019 (unaudited)	115,205	36,803	152,008
Non-current assets as at 31 March 2019 (unaudited)	4,649,325	313,334	4,962,659

23. Fair value of financial instruments

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

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 2020.

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 2020 (continued)**

23. Fair value of financial instruments (continued)

Fair value of financial assets carried at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the condensed consolidated interim financial statements approximate their fair values.

	Level	31 March 2020		31 December 2019	
		Carrying amount AED'000	Fair value AED'000	Carrying amount AED'000	Fair value AED'000
<i>Financial assets</i>					
- Other financial assets measured at amortised cost	3	388,501	376,173	452,219	400,749
- Loans and advances	3	18,890,495	18,890,495	17,735,756	17,735,756
<i>Financial liabilities</i>					
- Customers' deposits	2	21,854,586	21,854,586	21,326,234	21,326,234
- Issued Bonds	2	3,023,053	3,023,053	3,019,861	3,019,861

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 three-month period ended 31 March 2020 (continued)**

23. 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 2020 (unaudited)				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	96,965	-	-	96,965
<i>Investments carried at FVTOCI</i>				
Quoted equity	75,810	-	-	75,810
Unquoted equity	-	-	208,555	208,555
Unquoted debt securities	-	109,130	-	109,130
Total	172,775	109,130	208,555	490,460
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL				
Quoted debt securities	2,546,551	-	-	2,546,551
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	62,231	-	62,231
Negative fair value of derivatives	-	(16,945)	-	(16,945)
At 31 December 2019 (audited)				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	159,284	-	-	159,284
<i>Investments carried at FVTOCI</i>				
Quoted equity	127,183	-	-	127,183
Unquoted equity	-	-	209,252	209,252
Unquoted debt securities	-	123,759	-	123,759
Total	286,467	123,759	209,252	619,478
<i>Other financial liabilities measured at fair value</i>				
Issued bonds measured at FVTPL				
Quoted debt securities	2,578,066	-	-	2,578,066
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	20,400	-	20,400
Negative fair value of derivatives	-	(7,577)	-	(7,577)

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 2020 (continued)**

23. Fair value of financial instruments (continued)

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

	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Opening balance	209,252	323,239
Losses recognised in other comprehensive income	(697)	(113,987)
Closing balance	208,555	209,252

24. Capital adequacy

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

	Basel III	
	31 March 2020 AED'000 (unaudited)	31 December 2019 AED'000 (audited)
Capital base		
Tier 1 capital	2,732,158	2,920,581
Tier 2 capital	342,521	329,871
Total capital base	3,074,679	3,250,452
Risk-weighted assets:		
Credit risk	27,401,707	26,389,680
Market risk	211,044	360,838
Operational risk	1,290,982	1,290,982
Total risk-weighted assets	28,903,733	28,041,500
Capital ratios		
Common equity Tier 1 capital ratio	9.45%	10.42%
Tier 1 capital ratio	9.45%	10.42%
Total capital ratio	10.64%	11.59%

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)****25. 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 2020 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 in to 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.

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.

Subsequent to the reporting date, 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 six 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.

In the light of the current economic environment, the Group has accounted for ECL based on management judgement considering a change in economic scenarios. The loan portfolio is bifurcated in to two categories (significantly impacted and temporarily and mildly impact). The Bank has adopted the following:

Scenario 1

- Significantly Impacted: Stage downgrade + 2 notch rating downgrade
- Temporarily & Mildly Impacted: 1 notch rating downgrade

Scenario 2

- Significantly Impacted: Stage downgrade + 3 notch rating downgrade
- Temporarily & Mildly Impacted: 2 notch rating downgrade

Scenario 3

- Significantly Impacted: Stage downgrade + 4 notch rating downgrade
- Temporarily & Mildly Impacted: 3 notch rating downgrade

The total provision including ECL and overlays, currently recognised by the Group are adequate when compared with the results of the above three scenarios considered by the Group.

**Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2020 (continued)**

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

Forward Looking Information

In light of the current uncertain economic environment, the Group has assessed a range of possible macro-economic scenarios and associated weights, and analysed their impact on Q1 2020 ECL estimates accordingly. The Group continues to individually assess significant exposures to adequately safeguard against any adverse movements due to 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.

26. 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 2020 and 31 March 2019.

27. 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 28 October 2020.