Bank of Sharjah P.J.S.C.

Review report and
condensed consolidated interim financial information
for the three-month period ended 31 March 2024

Bank of Sharjah P.J.S.C.

Table of contents

Grant Thornton

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Report on Review of Condensed Consolidated Interim Financial Information to the Board of Directors of Bank of Sharjah P.J.S.C.

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Bank of Sharjah P.J.S.C. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2024 and the related condensed consolidated interim statement of profit or loss, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of cash flows and the condensed consolidated interim statement of changes in equity for the three-month periods then ended and explanatory notes. 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 condensed consolidated interim statement information based on our review.

Scope of Review

We conducted our review in accordance with the International Standards 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.

Basis for Qualified conclusion

Based on the information as disclosed under note 2.1 to this condensed consolidated interim financial information, the bank has excluded the comparatives column for the three-month period ended 31 March 2023, and hence does not conform with the requirements of IAS 34 paragraph 20 (b), (c) and (d), in the presentation of the condensed consolidated interim statement of profit or loss, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of cash flows, condensed consolidated interim statement of changes in equity and where applicable the related notes.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Grant Thornton

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GRANT THORNTON UAE

Dr. Osama El-Bakry
Registration No: 935
Dubai, United Arab Emirates

1 May 2024

Bank of Sharjah P.J.S.C.

Condensed consolidated interim statement of financial position

As at

	Note	31 March 2024 (unaudited) AED'000	31 December 2023 (audited) AED'000
ASSETS			
Cash and balances with central bank	6	**3,291,634**	4,558,295
Deposits and balances due from banks	7	**888,234**	618,633
Loans and advances, net	8	**22,327,120**	22,067,850
Investments measured at fair value	9	**649,420**	359,472
Investments measured at amortised cost	9	**7,362,441**	7,367,938
Investment properties		**1,102,753**	1,102,753
Assets acquired in settlement of debts		**1,062,149**	1,078,084
Other assets	10	**1,315,571**	1,252,050
Derivative assets held for risk management		**161**	202
Properties and equipment		**201,500**	209,613
Subsidiary held for sale	2.1	**844,790**	844,790
Total assets		**39,045,773**	39,459,680
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	11	**26,016,833**	26,342,597
Deposits and balances due to banks	12	**1,473,273**	1,916,341
Repo borrowings	13	**1,963,195**	1,702,312
Other liabilities	14	**2,038,286**	1,987,917
Issued bonds	15	**4,007,000**	4,004,998
Total liabilities		**35,498,587**	35,954,165
Equity			
Capital and reserves			
Share capital		**3,000,000**	3,000,000
Statutory reserve		**1,050,000**	1,050,000
Impairment reserve		**215,020**	190,316
Investment fair value reserve		**(793,460)**	(754,382)
Currency translation reserve		**(386,675)**	(386,675)
Retained earnings		**461,319**	404,932
Equity attributable to equity holders of the Bank		**3,546,204**	3,504,191
Non-controlling interests		**982**	1,324
Total equity		**3,547,186**	3,505,515
Total liabilities and equity		**39,045,773**	39,459,680

To the best of our knowledge, the condensed interim consolidated financial information presents fairly in all material respects the financial position, results of operations and cashflows of the Group as of, and for, the periods presented therein.
The condensed consolidated interim financial information was approved by the Board of Directors and authorised for issue on 1 May 2024

....
Mohammed Bin Saud Al Qasimi
Chairman
/ on behalf of

....
Mohamed Khadiri
CEO

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

Bank of Sharjah P.J.S.C.

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

	Notes	31 March 2024 AED'000
Interest income		502,800
Interest expense		(414,266)
Net interest income		88,534
Net fee and commission income		43,430
Exchange profit		5,463
Income on investments		3,850
Net income on properties		534
Other income		1,002
Operating income		142,813
Net impairment loss on financial assets	16	(13)
Net operating income		142,800
Personnel expenses		(31,164)
Depreciation		(5,982)
Other expenses		(21,230)
Profit before taxes		84,424
Income tax expense		(4,096)
Net profit for the period		80,328
Attributable to:		
Equity holders of the Bank		80,670
Non-controlling interests		(342)
Net profit for the period		80,328
Basic and diluted profit per share (AED)	19	0.03

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

Bank of Sharjah P.J.S.C.
Condensed consolidated interim statement of comprehensive income (unaudited) for the three-month period ended

	31 March 2024 AED'000
Net profit for the period	**80,328**
Other comprehensive loss items	
Items that will not be reclassified subsequently to consolidated statement of profit or loss:	
Net changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments)	**(39,078)**
Other comprehensive loss for the period	**(39,078)**
Total comprehensive income for the period	**41,250**
Attributable to:	
Equity holders of the Bank	**41,592**
Non-controlling interests	**(342)**
Total comprehensive income for the period	**41,250**

The accompanying notes 1 to 26 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

	Share capital AED'000	Statutory reserve AED'000	Impairment reserve AED'000	Investment fair value reserve AED'000	Currency translation reserve AED'000	Retained earnings AED'000	Total equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2024 (audited)	**3,000,000**	**1,050,000**	**190,316**	**(754,382)**	**(386,675)**	**404,932**	**3,504,191**	**1,324**	**3,505,515**
Profit for the period	-	-	-	-	-	80,670	80,670	(342)	80,328
Other comprehensive loss	-	-	-	(39,078)	-	-	(39,078)	-	(39,078)
Total comprehensive income for the period	-	-	-	**(39,078)**	-	**80,670**	**41,592**	**(342)**	**41,250**
Adjustment on disposal of FVOCI investment	-	-	-	-	-	421	421	-	421
Transfer from retained earnings	-	-	24,704	-	-	(24,704)	-	-	-
Balance at 31 March 2024 (unaudited)	**3,000,000**	**1,050,000**	**215,020**	**(793,460)**	**(386,675)**	**461,319**	**3,546,204**	**982**	**3,547,186**

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

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

	2024 AED'000
Cash flows from operating activities	
Net profit before tax for the period	84,424
Adjustments for:	
Depreciation of properties and equipment	5,982
Gain on sale of properties and equipment	(713)
Amortisation of premium on debt instruments	(12)
Provision for employees' end of service benefits	13,230
Gain on sale of assets acquired in settlement of debts	(3,738)
Net impairment loss on financial assets	13
Unrealized loss on assets acquired in settlement of debts	1,935
Dividends income	(1,065)
Operating profit before changes in operating assets and liabilities	100,056
Changes in:	
Deposits and balances due from banks maturing after three months from dates of placements	5,977
Statutory deposits with central bank	231,636
Loans and advances	(259,256)
Other assets	(102,540)
Customers' deposits	(325,764)
Other liabilities	42,269
Cash used in operations	(307,622)
Cash flows from investing activities	
Purchase of properties and equipment	(2,377)
Proceeds from sale of properties and equipment	4,508
Payments to purchase financial assets at amortised cost, FVTPL and FVOCI	(328,890)
Proceeds from disposal of investments	38,772
Proceeds from sale of assets acquired in settlement of debts	17,738
Dividends received	1,065
Cash used in investing activities	(269,184)
Net decrease in cash and cash equivalents during the period	(576,806)
Cash and cash equivalents at the beginning of the period	2,395,016
Cash and cash equivalents at the end of the period	1,818,210

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

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

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 six 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 information combine the activities of the Bank and its subsidiaries (collectively the "Group").

2. Basis of preparation

2.1 Subsidiary held for sale

The Central Bank of the UAE supports the Bank's strategic effort to delink/deconsolidate its Lebanese Subsidiary, as the underlying accounting anomalies impact is not sustainable for the Bank and pose a threat for even greater unnecessary volatility. Accordingly, the ultimate immediate objective was to cease the consolidation of the Lebanese Subsidiary financial statements in the Group's financial statements as per the Central Bank of the UAE recommendations effective 1 April 2023. This is required in order to avoid the unnecessary accounting anomalies and/or disruptions resulting from the consolidation of the Lebanese Subsidiary. On 22 June 2023, the board approved the de-linking.

Consequently, the Bank opted not to include comparative figures for Q1 2023 to prevent reporting accounting anomalies that occurred prior to the effective date of the delinking on April 1, 2023.

When the Group classifies the Lebanese subsidiary as an "asset held for sale" involving loss of control and the sale is highly probable within 12 months, all the assets and liabilities of that subsidiary are classified as held for sale. Once classified in this category, the group of assets and liabilities are measured at the lower of carrying amount or fair value less costs to sell. If the group of assets and liabilities becomes impaired, an impairment loss is recognised in the condensed consolidated interim statement of profit and loss. Impairment losses may be reversed. The fair value less cost to sell estimate is a significant judgement and it is determined based on the market offer approach.

The breakdown of the Lebanese subsidiary's net assets as at 1 April 2023 is as follows:

ASSETS	**AED'000**
Cash and balances with central bank	2,892,460
Deposits and balances due from banks	10,497
Loans and advances, net	1,090,017
Investments measured at fair value	29,567
Investments measured at amortised cost	43,344
Other intangibles	345
Assets acquired in settlement of debt	79,641
Other assets	17,989
Property and equipment	6,040
Total assets	**4,169,900**
LIABILITIES	
Customers' deposits	2,318,968
Deposits and balances due to banks	617,261
Other liabilities	189,728
Total liabilities	**3,125,957**
Net assets	**1,043,943**
Fair value of net assets	**844,790**

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

2. Basis of preparation (continued)

2.2 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of this condensed consolidated interim financial information is consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2023. This condensed consolidated interim financial information does not include all the information and disclosures 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 2023. In addition, results for the period from 1 January 2024 to 31 March 2024 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2024.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, investing assets and investment properties have been disclosed in the condensed consolidated interim financial information.

Basis of measurement - The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values as explained in the accounting policies below.

Functional and presentation currency - The condensed consolidated interim financial information is presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands' dirham, except when otherwise indicated.

Basis of consolidation - This condensed consolidated interim financial information incorporates the condensed interim financial information 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 information comprises 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.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

2. Basis of preparation (continued)

2.2 Basis of preparation (continued)

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

Name of Subsidiary	Proportion of ownership interest		Year of Incorporation	Year of acquisition	Country of incorporation	Principal activities
	2024	2023				
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
GTW Holding LTD	100%	100%	2022	2022	U.A.E. (ADGM)	Facilitate the sale of real estate assets
GDLR Holding LTD	100%	100%	2022	2022	U.A.E. (ADGM)	Facilitate the sale of real estate assets
BOS Real Estate Egypt	100%	100%	2023	2023	Egypt	Real estate development activities

3. Application of other new and revised International Financial Reporting Standards ("IFRS")

Relevant new and revised IFRS applied with no material effect on the Group condensed consolidated interim financial statements.

The following new and revised IFRS have been adopted in these condensed consolidated interim financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

	Effective for annual periods beginning on or after
Classification of Liabilities as Current or Non-Current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024

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 2023.

5 Financial instruments

5.1 Recognition and Initial Measurement

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities respectively, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in consolidated statement of profit or loss.

5.2 Classification of financial assets

Balances with central banks, due from banks and financial institutions, financial assets and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition). IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at amortised cost

The effective interest rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective interest rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition. Income is recognised in the consolidated statement of profit or loss on an effective interest rate basis for financing and investing instruments measured subsequently at amortised cost.

5 Financial instruments (continued)

5.2 Classification of financial assets (continued)

Financial assets measured at FVTPL

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates fair value through other comprehensive income (FVTOCI) at initial recognition. Financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate it as at FVTPL at initial recognition, are measured at FVTPL. Financial assets (other than equity instruments) may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets (other than equity instruments) designated as at FVTPL at initial recognition is not permitted.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss.

Financial assets measured at FVTOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments fair value reserve is not transferred to consolidated statement of profit or loss.

Reclassification of Equity Investments at Fair value through profit and loss (FVTPL) to Fair value through Other Comprehensive Income (FVOCI) effective from 1 Jan 2024

The Group has decided to change the classification of its Equity Investments portfolio from Fair value through profit and loss (FVTPL) to Fair value through Other Comprehensive Income (FVOCI) with effect from 1 January 2024. The decision is made after the Group has made a change in the business model under the which Group hold financial assets and hence the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets.

5.3 Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

5 Financial instruments (continued)

5.3 Measurement of ECL (continued)

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However, for unfunded exposures, ECL is measured as follows:

For undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and for financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1, if certain criteria are met, if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail.

5 Financial instruments (continued)

5.3 Measurement of ECL (continued)

Assessment of significant increase in credit risk (continued)

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD [stage 1] and lifetime PD [stage 2].

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations)

The Group uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- quantitative indicators
- a backstop of 30 days past due.

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. The Group has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 instalments (for quarterly instalments) have been made or 12 months (for instalments longer than quarterly) curing period is met.

Definition of default

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

5 Financial instruments (continued)

5.3 Measurement of ECL (continued)

Definition of default (continued)

In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: (as a deduction from the gross carrying amount of the assets);
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the statement of profit or loss.

5.4 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'amortised cost'. The Group initially recognises financial liabilities such as deposits and debt securities issued on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value. Determination is made at initial recognition and is not reassessed. Financial liabilities at FVTPL are stated at fair value, with any gains / losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/ loss recognised in consolidated statement of profit or loss incorporates any interest paid on the financial liability. However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability. In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:
- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5. Financial instruments (continued)

5.4 Financial liabilities (continued)

Financial liabilities at amortized cost

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

5.5 Estimates and judgements

The preparation of condensed consolidated financial information 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 this condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited consolidated financial statements as at and for the year ended 31 December 2023.

5.6 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties are reported at valuation based on fair value at the end of the reporting period. The fair value is determined on a periodic basis by independent professional valuers.

Fair value adjustments on investment property are included in the consolidated statement of profit or loss in the period in which these gains or losses arise. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the period of derecognition. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

6. Cash and balances with central bank

The analysis of the Group's cash and balances with the central bank is as follows:

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Cash on hand	44,412	45,336
Statutory deposits	89,020	320,656
Current accounts	3,158,202	4,192,303
	3,291,634	4,558,295

The geographical analysis of the cash and balances with the central bank is as follows:

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Banks abroad	-	-
Banks in the U.A.E.	3,291,634	4,558,295
	3,291,634	4,558,295

The reserve requirements which are kept with the Central Bank of the country in which the Group operates are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Bank. The level of reserves required changes periodically in accordance with the directive of the respective Central Bank.

Cash and cash equivalents

For the statement of condensed consolidated interim statement of cash flows, cash and cash equivalents includes:

	31 March 2024 AED'000 (unaudited)
Cash and balances with central bank (Note 6)	3,291,634
Deposits and balances due from banks (Note 7)	1,021,272
Deposits and balances due to banks (Note 12)	(1,473,273)
Repo borrowings (Note 13)	(363,195)
	2,476,438
Less: Deposits with central banks and balances due from banks – original maturity more than three month	(569,208)
Less: Statutory deposits with central banks (Note 6)	(89,020)
	1,818,210

*Approximately AED 1.6 billion of Repo borrowing have not been deducted from cash and cash equivalents as at 31 March 2024. Considering the underlying substance of the borrowing and nature of the underlying collateral, the Group has classified the proceeds/ repayments from the Repo borrowing as a cash inflow/ outflow from financing activities. (Note 13)

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

7. Deposits and balances due from banks

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

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Demand	**452,064**	176,030
Time	**569,208**	575,185
	1,021,272	751,215
Expected credit losses (note 16)	**(133,038)**	(132,582)
	888,234	618,633

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

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Banks abroad	**1,004,556**	738,197
Banks in the U.A.E.	**16,716**	13,018
	1,021,272	751,215
Expected credit losses (note 16)	**(133,038)**	(132,582)
	888,234	618,633

8. Loans and advances, net

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

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Overdrafts	**5,113,128**	4,663,532
Commercial loans	**14,749,306**	14,715,439
Bills discounted	**1,891,390**	2,085,781
Other advances	**2,305,602**	2,334,467
Gross amount of loans and advances net of interest in suspense	**24,059,426**	23,799,219
Expected credit losses (note 16)	**(1,732,306)**	(1,731,369)
Net loans and advances	**22,327,120**	22,067,850

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

8. Loans and advances, net (continued)

(b) Impairment reserve

In accordance with CBUAE circular 28/2010, 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:

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Impairment reserve – Specific		
Specific provisions and interest in suspense under Circular 28/2010 of CBUAE	**1,611,632**	1,595,006
Stage 3 provisions under IFRS 9*	**1,611,632**	1,595,006
Specific provision transferred to the impairment reserve	**-**	-

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Impairment reserve – Collective		
Collective provisions under Circular 28/2010 of CBUAE	**396,803**	389,004
Stage 1 and Stage 2 provisions under IFRS 9*	**181,783**	198,688
Collective provision transferred to the impairment reserve	**215,020**	190,316

As at 31 March 2024, AED 24.704 million are transferred from retained earnings to impairment reserve.

* For the purpose of calculation, the movement in impairment reserve provisions under IFRS 9 are determined based on CB UAE classification of loans and advances, only for the purpose of this disclosure.

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

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Loans and advances resident in the U.A.E.	**23,452,722**	23,053,575
Loans and advances non-resident others	**606,704**	745,644
	24,059,426	23,799,219

9. Investments measured at fair value and amortised cost

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Investments measured at fair value		
Investments measured at FVTPL		
Quoted equity securities	-	134,706
Debt Securities	328,888	-
	328,888	134,706
Investments measured at FVTOCI		
Quoted equity securities	200,310	104,544
Unquoted equity securities	120,222	120,222
	320,532	224,766
Total investments measured at fair value	649,420	359,472
Investments measured at amortised cost		
Debt securities	7,364,204	7,371,537
Expected credit losses (note 16)	(1,763)	(3,599)
Total investments measured at amortised cost	7,362,441	7,367,938
Total Investments	8,011,861	7,727,410

All 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 bonds and sukuk with the fair value of AED 2.15 billion (31 December 2023 - AED 2.11 billion) given as collateral against borrowings under repo agreements (Note 13).

The composition of the investment measured at fair value and amortised cost by geography is as follows:

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
United Arab Emirates	7,897,636	7,615,018
Middle East (other than G.C.C. countries)	96,652	96,653
Europe	19,336	19,338
	8,013,624	7,731,009
Expected credit losses (note 16)	(1,763)	(3,599)
	8,011,861	7,727,410

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

10. Other assets

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Acceptances – contra (note 14)	**927,436**	1,011,401
Interest receivable	**178,170**	67,595
Prepayments	**26,429**	9,085
Others	**211,500**	191,933
	1,343,535	1,280,014
Expected credit loss (note 16)	**(27,964)**	(27,964)
	1,315,571	1,252,050

11. Customers' deposits

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Time deposits	**21,013,248**	21,656,948
Current and other accounts	**4,907,404**	4,586,738
Saving accounts	**96,181**	98,911
	26,016,833	26,342,597

12. Deposits and balances due to banks

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Time	**1,213,233**	1,913,348
Demand	**260,040**	2,993
	1,473,273	1,916,341

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

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Banks in the U.A.E.	**792,276**	537,960
Banks abroad	**680,997**	1,378,381
	1,473,273	1,916,341

13. Repo borrowing

The analysis of the repo borrowing agreements is as follows:

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Banks in the U.A.E.	**1,963,195**	1,702,312
	1,963,195	1,702,312

The Group entered into repo agreements under which bonds with fair value of AED 2.15 billion (31 December 2023: AED 2.11 billion) were given as collateral against borrowings. The risks and rewards relating to these bonds remain with the Group.

Repo borrowings include an amount of AED 1.6 billion (31 December 2023: AED 1.6 billion) which is represented as part of the group's financing activities in the consolidated statement of cashflows. (Note 6)

14. Other liabilities

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Acceptances – contra (Note 10)	**927,436**	1,011,401
Interest payable	**585,830**	576,165
Unearned income	**139,867**	143,422
Clearing balances	**66,920**	5,266
Provision for employees' end of service benefits	**61,462**	62,236
Lease liabilities	**55,986**	66,456
ECL on unfunded exposure	**30,427**	30,263
Managers' cheques	**28,385**	26,689
Tax payable	**4,096**	-
Accrued expenses	**1,857**	12,608
Others	**136,020**	53,411
	2,038,286	1,987,917

15. Issued Bonds

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 EMTN Programme which is listed on the Irish Stock Exchange.

On 14 March 2023, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836.5 million) for a five-year maturity at a coupon of 7%, classified at amortized cost. The Notes were issued under the Bank's EMTN Programme which is listed on the Irish Stock Exchange.

The General Assembly on 30 April 2024 authorised a renewal of the Bank's EMTN Programme of USD 2.5 billion.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

16. Net impairment loss on financial assets and credit risk

Allocation of impairment loss as of 31 March 2024 and 31 December 2023 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 March 2024 (unaudited)				
Deposits and balances due from banks	**819**	**7**	**132,212**	**133,038**
Loans and advances	**39,898**	**1,295,756**	**396,652**	**1,732,306**
Investments	**1,763**	**-**	**-**	**1,763**
Unfunded exposure	**350**	**30,077**	**-**	**30,427**
Other assets	**27,964**	**-**	**-**	**27,964**
Total	**70,794**	**1,325,840**	**528,864**	**1,925,498**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2023 (audited)				
Deposits and balances due from banks	357	13	132,212	132,582
Loans and advances	42,570	1,292,551	396,248	1,731,369
Investments	3,599	-	-	3,599
Unfunded exposure	537	29,720	6	30,263
Other assets	27,964	-	-	27,964
Total	**75,027**	**1,322,284**	**528,466**	**1,925,777**

The movement in impairment loss by financial asset category during the period ended 31 March 2024 is as follows:

	Opening balance AED'000	Net charge/ (reversal) during the period AED'000	Write off during the period AED'000	Closing balance AED'000
Deposits and balances due from banks	**132,582**	**456**	**-**	**133,038**
Loans and advances	**1,731,369**	**354**	**583**	**1,732,306**
Investments	**3,599**	**(1,836)**	**-**	**1,763**
Unfunded exposure	**30,263**	**164**	**-**	**30,427**
Other assets	**27,964**	**-**	**-**	**27,964**
Total	**1,925,777**	**(862)**	**583**	**1,925,498**
Direct Charge		875		
Net impairment charge on financial assets		**13**		

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

17. Commitments and contingent liabilities

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Financial guarantees for loans	207,829	207,829
Other guarantees	1,315,596	1,311,368
Letters of credit	431,141	459,086
	1,954,566	1,978,283
Irrevocable commitments to extend credit	476,674	476,117
	2,431,240	2,454,400

18. Related party balances

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24 Related Party Disclosures. Related parties comprise companies under common ownership and/or common management and control, their shareholders and key management personnel. Transactions with associate and other related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties. Transactions within the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The related parties' balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Loans and advances	1,000,370	920,009
Letters of credit, guarantee and acceptances	321	321
	1,000,691	920,330
Collateral deposits	104	104
Expected Credit Losses	1,902	2,031
Net exposure	998,685	918,195
Other deposits	5,438,906	5,727,714
Investment in Government of Sharjah bonds	7,000,000	7,000,000

Transactions during the reporting period

	31 March 2024 AED'000 (unaudited)
Interest income	19,700
Interest expense	3,165
Rent expense	2,125

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

18. Related party balances (continued)

Compensation of Directors and key management personnel:

	31 March 2024 AED'000
Short term benefits	1,454
End of service benefits	104
Total compensation	1,558

19. Profit per share

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

Basic and diluted profit per share	31 March 2024
Profit attributable to owners of the Bank for the period (AED'000)	80,670
Weighted average number of ordinary shares:	
Ordinary shares at the beginning of the period	3,000,000
Weighted average number of shares outstanding during the period (in thousands shares)	3,000,000
Basic and diluted profit per share (AED)	0.03

As at the reporting date, the diluted profit per share is equal to the basic profit per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted profit per share is calculated.

20. 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 information for the three-month period ended 31 March 2024 (unaudited)

20. 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
31 March 2024 (unaudited):				
Segment assets	**27,434,425**	**9,959,404**	**1,651,944**	**39,045,773**
Segment liabilities	**30,380,736**	**4,007,000**	**1,110,851**	**35,498,587**
31 December 2023 (audited):				
Segment assets	28,256,179	9,674,953	1,528,548	39,459,680
Segment liabilities	30,972,647	4,004,998	976,520	35,954,165

The following table presents information regarding the Group's operating segments for the three-month period ended 31 March 2024 (unaudited):

	Commercial Banking AED'000	Investment banking AED'000	Unallocated* AED'000	Total AED'000
Operating income				
- Net interest income	**32,137**	**56,397**	**-**	**88,534**
- Net fee and commission income	**43,430**	**-**	**-**	**43,430**
- Exchange profit	**5,463**	**-**	**-**	**5,463**
- Income on investments	**-**	**3,850**	**-**	**3,850**
- Net income on properties	**-**	**534**	**-**	**534**
- Other income	**1,002**	**-**	**-**	**1,002**
Total operating income	**82,032**	**60,781**	**-**	**142,813**
Other material non-cash items				
- Net impairment loss on financial assets	**1,823**	**(1,836)**	**-**	**(13)**
- Depreciation	**-**	**-**	**(5,982)**	**(5,982)**
- General and administrative expenses	**(44,535)**	**(7,859)**	**-**	**(52,394)**
- Income tax expense	**-**	**-**	**(4,096)**	**(4,096)**
Net profit/(loss) for the period	**39,320**	**51,086**	**(10,078)**	**80,328**

** Unallocated items comprise mainly head office expenses and tax assets*

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period. 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 2023. For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

21. Fair value of financial instruments

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

Investments held at fair value through profit and loss - *Investments* held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investments listed equity securities for which the fair values are based on quoted prices at close of business as of 31 March 2024, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

Unquoted investments held at fair value through other comprehensive income - The condensed consolidated interim financial information includes holdings in unquoted securities amounting to AED 120 million (31 December 2023: AED 120 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on comparable ratios backed by discounted cash flow analysis depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 6 million (31 December 2023: AED 6 million). The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial instruments 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 information approximates their fair values.

		31 March 2024 (unaudited)		31 December 2023 (audited)	
	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**	**7,362,441**	**7,358,237**	7,367,938	7,363,519
- Loans and advances	**3**	**22,327,120**	**22,327,120**	22,067,850	22,067,850
Financial liabilities					
- Customers' deposits	**2**	**26,016,833**	**26,016,833**	26,342,597	26,342,597
- Issued Bonds	**2**	**4,007,000**	**4,098,220**	4,004,998	4,068,946

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

21. Fair value of financial instruments (continued)

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).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 March 2024 (unaudited)				
Investments measured at fair value				
Investment measured at FVTPL				
Debt Securities	328,888	-	-	328,888
Investments carried at FVTOCI				
Quoted equity	200,310	-	-	200,310
Unquoted equity	-	-	120,222	120,222
Total	**529,198**	**-**	**120,222**	**649,420**
Other assets				
Positive fair value of derivatives	-	161	-	161

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2023 (audited)				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	134,706	-	-	134,706
Investments carried at FVTOCI				
Quoted equity	104,544	-	-	104,544
Unquoted equity	-	-	120,222	120,222
Total	**239,250**	**-**	**120,222**	**359,472**
Other assets				
Positive fair value of derivatives	-	202	-	202

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

21. Fair value of financial instruments (continued)

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

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

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Opening balance	120,222	157,058
Subsidiary held for sale adjustment (note 2.1)	-	(66)
Other movements	-	(36,770)
Closing balance	120,222	120,222

22. Capital adequacy

Basel III

	31 March 2024 AED'000 (unaudited)	31 December 2023 AED'000 (audited)
Capital base		
Common Equity Tier 1	3,657,867	3,700,274
Additional Tier 1 capital	-	-
Tier 1 capital	3,657,867	3,700,274
Tier 2 capital	330,669	324,171
Total capital base	3,988,536	4,024,445
Risk-weighted assets:		
Credit risk	26,453,541	25,933,669
Market risk	480,841	272,735
Operational risk	908,624	1,231,102
Total risk-weighted assets	27,843,006	27,437,506
Capital ratios		
Common equity Tier 1 capital ratio	13.14%	13.49%
Tier 1 capital ratio	13.14%	13.49%
Total capital ratio	14.33%	14.67%

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

23. Risk management

Stage migration for the three-month period ended 31 March 2024

Scope: All clients
Migration during the period

	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 2024	**2,696,205**	**1,084**	**31,346**	**38**	**21,938**	**197**	**2,749,489**	**1,319**
Transfers from stage 1 to stage 2	(4,841)	-	4,841	-	-	-	-	-
Transfers from 1&2 to stage 3	-	-	(3,503)	-	3,503	-	-	-
Transfers from stage 3	-	-	-	-	-	-	-	-
Change in exposure	229,093	26	6,479	42	22	23	**235,594**	**91**
As of 31 March 2024	**2,920,457**	**1,110**	**39,163**	**80**	**25,463**	**220**	**2,985,083**	**1,410**
Wholesale banking loans								
As of 1 January 2024	**7,871,898**	**41,486**	**11,183,272**	**1,292,513**	**1,994,560**	**396,051**	**21,049,730**	**1,730,050**
Transfers from stage 1 to stage 2	(141,104)	(3,616)	141,104	3,616	-	-	-	-
Transfers from stage 2 to stage 1	26,110	45	(26,110)	(45)	-	-	-	-
Transfers from stage 3	-	-	6	-	(6)	-	-	-
Change in exposure	(262,991)	873	277,973	(408)	9,631	381	**24,613**	**846**
As of 31 March 2024	**7,493,913**	**38,788**	**11,576,245**	**1,295,676**	**2,004,185**	**396,432**	**21,074,343**	**1,730,896**
Total	**10,414,370**	**39,898**	**11,615,408**	**1,295,756**	**2,029,648**	**396,652**	**24,059,426**	**1,732,306**

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2024 (unaudited)

23. Risk management (continued)

ECL charge/(flow) for the three-month period ended 31 March 2024

Scope: All clients

	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 2024	1,084	38	197	1,319
Others	26	42	23	91
ECL allowance as of 31 March 2024	1,110	80	220	1,410
Wholesale banking loans:				
ECL allowance as of 1 January 2024	41,486	1,292,513	396,051	1,730,050
Emirates governments	(78)	-	-	(78)
GREs (Gov ownership >50%)	385	-	-	385
Other corporates	(3,263)	3,050	36	(177)
High net worth individuals	(103)	148	18	63
SMEs	361	(35)	327	653
ECL allowance as of 31 March 2024	38,788	1,295,676	396,432	1,730,896
	39,898	1,295,756	396,652	1,732,306

24. Corporate tax

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime is effective from 1 June 2023 and accordingly, it has an income tax related impact on the financial statements for accounting periods beginning on or after 1 June 2023.

The Cabinet of Ministers Decision No. 116 of 2022 specifies the threshold of income over which the 9% tax rate would apply and accordingly, the Law is now considered to be substantively enacted from the perspective of IAS 12 - Income Taxes. A rate of 9% will apply to taxable income exceeding AED 375,000 and a rate of 0% will apply to taxable income not exceeding AED 375,000 and a rate of 0% on qualifying income of free zone entities.

25. 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 2024.

26. Subsequent events

There are no material subsequent events have occurred that require adjustment to, or disclosure in, the interim financial statements.