Invest bank P.S.C.

Condensed consolidated interim financial information for the three-month period ended 31 March 2019

Registered office
Al Zahra Street
P O Box 1885 - Sharjah
United Arab Emirates

Invest bank P.S.C.

Condensed consolidated interim financial information for the three-month period ended 31 March 2019

Review report on condensed consolidated interim financial information to the Board of Directors of Invest bank P.S.C.

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Invest bank P.S.C. ("the Bank") and its subsidiary (together referred to as "the Group") as at 31 March 2019 and the related condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-month period then ended and other explanatory information. The directors are responsible for the preparation and presentation of this condensed consolidated 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 financial information based on our review.

Scope of review

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

Conclusion

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

Emphasis of matter

We draw attention to note 2 to the condensed consolidated interim financial information, which states that the Bank's equity has reduced to AED 0.645 billion at 31 March 2019, as a result of the substantial increase in its impairment provision. Consequently, the Group is in the process of recapitalizing itself through a strategic controlling investment commitment of AED 1.9 billion by the Government of Sharjah, of which AED 1.1 billion has been deposited with the Bank as at 31 December 2018 and held as a deposit as at 31 March 2019, pending shareholders' and regulatory approvals for conversion into share capital. The conversion to equity has been completed on 10 April 2019. The Central Bank of the UAE has also announced that it will support the Bank with all the available liquidity facilities, which remain at Bank's disposal if and when needed. Our review report is not modified in respect of this matter.

PricewaterhouseCoopers
8 July 2019

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Invest bank P.S.C.

Condensed consolidated statement of financial position as at 31 March 2019

	Note	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
ASSETS			
Cash and deposits with central banks	6	**777,952**	1,968,369
Due from banks	7	**125,680**	733,460
Investment securities	8	**159,659**	155,947
Loans and advances to customers	9	**10,050,735**	10,075,374
Other assets	10	**1,050,217**	1,092,918
Total assets		**12,164,243**	14,026,068
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	**226**	199
Deposits from customers	13	**10,901,907**	12,635,484
Other liabilities	14	**617,037**	643,200
Total liabilities		**11,519,170**	13,278,883
EQUITY			
Share capital	15	**1,588,125**	1,588,125
Legal reserve		**450,688**	450,688
Special reserve		**450,688**	450,688
Fair value reserve		**(113,208)**	(117,015)
Accumulated losses		**(1,731,220)**	(1,625,301)
Total equity		**645,073**	747,185
Total liabilities and equity		**12,164,243**	14,026,068

These condensed consolidated interim financial information was approved and authorised for issue by the Board of Directors on 19 June 2019 and signed on its behalf by:

Chief Executive Officer

Chairman

The notes on pages 7 to 26 are an integral part of these condensed consolidated interim financial information.

Invest bank P.S.C.

Condensed consolidated statement of profit or loss for the three-month period ended 31 March 2019 (un-audited)

		For the three-month period ended 31 March	
	Note	2019 AED'000	2018 AED'000
Interest income		**139,177**	207,512
Interest expense		**(82,357)**	(85,857)
Net interest income		**56,820**	121,655
Net fees and commission income		**34,656**	46,486
Net income from foreign currencies		**2,834**	4,453
Other income		**5,479**	5,106
Total operating income		**99,789**	177,700
Operating expenses			
General and administrative expenses		**(55,676)**	(54,445)
Depreciation and amortisation		**(3,488)**	(3,290)
Total operating expenses		**(59,164)**	(57,735)
Net profit before impairment loss		**40,625**	119,965
Net impairment loss	9.2	**(146,544)**	(55,272)
(Loss)/profit for the period		**(105,919)**	64,693
(Loss)/profit per share	17	**(0.07)**	0.04

Invest bank P.S.C.

Condensed consolidated statement of other comprehensive income for the three-month period ended 31 March 2019 (un-audited)

	For the three month period ended 31 March	
	2019	**2018**
	AED'000	**AED'000**
(Loss)/ profit for the period	**(105,919)**	64,693
Other comprehensive (loss)/ income:		
Items that will not be reclassified to profit or loss:		
Change in fair value of financial assets measured at fair value through other comprehensive income (FVTOCI)	**3,807**	(8,104)
Total items that will not be reclassified to profit or loss	**3,807**	(8,104)
Total other comprehensive income/ (loss)	**3,807**	(8,104)
Total comprehensive (loss)/ income for the period	**(102,112)**	56,589

Condensed consolidated statement of changes in equity for the three-month period ended 31 March 2019 (un-audited)

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Retained earnings/ accumulated losses AED'000	Total AED'000
Balance at 1 January 2018	1,588,125	450,688	450,688	(97,213)	147,619	2,539,907
Changes on initial application of IFRS 9	-	-	-	-	(300,199)	(300,199)
Restated balance at 1 January 2018	1,588,125	450,688	450,688	(97,213)	(152,580)	2,239,708
Profit for the period	-	-	-	-	64,693	64,693
Other comprehensive loss						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(8,104)	-	(8,104)
Total comprehensive income for the period	-	-	-	(8,104)	64,693	56,589
Balance at 31 March 2018	1,588,125	450,688	450,688	(105,317)	(87,887)	2,296,297
Balance at 1 January 2019	1,588,125	450,688	450,688	(117,015)	(1,625,301)	747,185
Loss for the period	-	-	-	-	(105,919)	(105,919)
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	3,807	-	3,807
Total comprehensive loss for the period	-	-	-	3,807	(105,919)	(102,112)
Balance at 31 March 2019	1,588,125	450,688	450,688	(113,208)	(1,731,220)	645,073

The notes on pages 7 to 26 are an integral part of these condensed consolidated interim financial information.

Invest bank P.S.C.

Condensed consolidated statement of cash flows
for the three-month period ended 31 March 2019 (un-audited)

	Note	For the three-month period ended 31 March 2019 AED'000	2018 AED'000
Cash flows from operating activities			
(Loss)/ profit for the year		**(105,919)**	64,693
Adjustments:			
Depreciation		**3,488**	3,290
Net loss on investment securities		**95**	265
Net impairment loss	9.2	**146,544**	55,272
		44,208	123,520
Changes in time deposits with banks maturing after three months		**-**	(100,000)
Change in statutory reserve requirement		**45,105**	(20,470)
Change in loans and advances to customers		**(121,905)**	(156,095)
Change in other assets		**40,117**	69,908
Change in deposits from customers		**(1,733,577)**	822,474
Change in other liabilities		**(26,163)**	(18,358)
Net cash (used in)/ generated from operating activities		**(1,752,215)**	720,979
Cash flows from investing activities			
Purchase of property and equipment		**(983)**	(1,286)
Proceeds from sale/redemption of investment securities		**-**	71,222
Net cash (used in)/generated from operating activities		**(983)**	69,936
Net change in cash and cash equivalents		**(1,753,198)**	790,915
Cash and cash equivalents at beginning of the period		**2,265,719**	2,170,225
Cash and cash equivalents, at end of the period		**512,521**	2,961,140
Cash and cash equivalents as at 31 March			
Cash and deposits with central banks		**386,983**	2,714,724
Due from banks maturing within three months		**125,764**	246,611
Due to banks maturing within three months		**(226)**	(195)
		512,521	2,961,140

1 Legal status and activities

Invest bank P.S.C. ("Invest bank" or " the Bank"') is a public shareholding company with limited liability which was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered address of the Bank is at Al Zahra Street, P.O .Box 1885, Sharjah, United Arab Emirates ("UAE").

Invest bank is licensed by the Central Bank of the UAE (the "CBUAE") to carry out banking activities and is principally engaged in the business of corporate and retail banking through its network of branches located in the Emirates of Sharjah, Dubai, Abu Dhabi, Ajman, Ras Al Khaimah and Fujairah. Invest Bank also carries out banking activities through it's branch ("the branch") in Beirut, Lebanon, licensed by Banque Du Liban (the "CB Lebanon"). The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has a fully owned subsidiary, ALFA Financial Services FZE with limited liability status in the Sharjah Airport International Free Zone to provide support services to the Bank.

The consolidated financial statements as at and for the three-month period ended 31 March 2019 comprise the Bank and its subsidiary (together referred to as "the Group").

2 Recapitalisation

2.1 Background

Following a significant deterioration in the quality of the loans and advances portfolio of the Bank, its impairment provision has increased by AED 2.2 billion to AED 3.9 billion at 31 March 2019 and, consequently, the Bank's equity has reduced to AED 0.645 billon at that date. These factors have resulted in the Bank's liquidity being adversely affected as well as the breach in its regulatory Capital Adequacy Ratio ("CAR"), which is at 5.58% at 31 March 2019, compared to the regulatory minimum of 13%. The UAE Central Bank, has also requested for further regulatory impairment provisions up to a maximum of AED 0.9 billion which is currently under review by the Bank.

On 10 April 2019, the Government of Sharjah acquired a controlling interest in the Bank through a strategic investment, details of which are set out below. In addition, the UAE Central Bank has made a public press announcement on 16 December 2018, that it will support the Bank with all the available liquidity facilities, which remain at Bank's disposal if and when needed.

2.2 Recapitalisation plan

On 13 December 2018, the Government of Sharjah entered into an Investment Agreement with the Bank, whereby it agreed, to acquire a 50.1% controlling interest in the Bank through a "Strategic Investment", subject to shareholders' and regulatory approvals. The proposed investment commitment of AED 1.9 billion would be undertaken in two tranches, as follows: AED 1.1 billion through the issue of 1,592,857,143 shares of AED 1 each, issued to the Government of Sharjah at a discounted price of AED 0.7 per share and a further rights issue of AED 0.8 billion, also to be issued at a similar discounted price of AED 0.7 per share and to be fully underwritten by the Government of Sharjah. The Investment Agreement expired on 31 January 2019, and was replaced with the Implementation Agreement dated 28 March 2019 with similar terms and conditions to those of the Investment Agreement.

2 Recapitalisation (continued)

2.2 Recapitalisation plan (continued)

The first tranche of the AED 1.1 billion capital was placed as a deposit with the Bank by the Government of Sharjah on 27 December 2018, pending shareholders' and regulatory approvals for conversion into share capital. The Bank, at it's General Meeting held on 10 April 2019 approved the Government of Sharjah's strategic controlling investment in the Bank subsequent to the receipt of the regulatory approvals. Accordingly, the AED 1.1 billon deposit has now been converted into fully paid up share capital of the Bank and the authorized share capital of the Bank was increased to AED 6.3 billion. Refer to note 15 for the recomputation of CAR at 13.27%, had this conversion taken place prior to 31 March 2019.

3 Basis of preparation

(a) Statement of compliance

This condensed consolidated interim financial information has been prepared on the historical cost basis except for the measurement of certain investment securities and repossessed propoerties at fair value.

This condensed consolidated interim financial information has been prepared in accordance with International Financial Reporting Standard (IFRS), International Accounting Standards (IAS) 34 "Interim Financial Reporting" and applicable laws of the UAE. It does not include all of the information required for annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018, which has been prepared in accordance with IFRS and the applicable provisions of UAE Federal Law No. 2 of 2015, other than the change in accounting policy arising from adoption of IFRS 16 Leases.

The Bank, in accordance with Article 302 of Federal Law No. 2 of 2015, convened a General Meeting on 16 May 2019 and resolved to continue the Bank.

(b) Functional and presentation currency

This condensed consolidated interim financial information has been presented in United Arab Emirates Dirharns (AED) rounded to the nearest thousand, which is the Group's functional and presentation currency.

(c) Consolidation

The condensed consolidated financial information incorporate the condensed consolidated financial information of Invest bank P.S.C. and its subsidiary (collectively referred to as "Group").

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

3 Basis of preparation (continued)

(c) Consolidation (continued)

ii) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the condensed consolidated financial information. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the condensed consolidated interim financial information are described as follows:

(i) Classification of financial assets

In accordance with IFRS 9, the Group classifies its financial assets based on the assessments of the business models in which the assets are held at a portfolio level and whether cash flows generated by assets constitute solely payments of principal and interest ("SPPI"). This requires significant judgement in evaluating how the Group manages its business model and on whether or not a contractual clause in all debt instruments of a certain type breaches SPPI and results in a material portfolio being recorded at fair value through profit or loss ("FVTPL").

3 Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

(ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss ("ECL") allowance for financial assets measured at amortised cost and fair value through other comprehensive income ("FVOCI") is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk ("SICR");
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward - looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(iii) Fair value of derivatives and unquoted securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however area such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

(iv) Repossessed properties

The fair value of repossessed properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's repossessed properties portfolio annually.

3 Basis of preparation (continued)

(e) Summary of significant accounting policies introduced on adoption of IFRS 16

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group leases various branches and ATM premises. Rental contracts are typically made for fixed period of 1 year.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable;

3 Basis of preparation (continued)

(e) Summary of significant accounting policies introduced on adoption of IFRS 16 (continued)

Interest rate for discounting

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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

4.1 New and revised IFRSs applied with no material effect on the condensed consolidated financial information

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these condensed consolidated financial information. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 19 *Employee Benefits* relating to Plan Amendment, Curtailment or Settlement. This amendment mentions that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

4 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

4.2 New and revised IFRS in issue but not yet effective

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	*Effective for annual periods beginning on or after*
Amendments to IFRS 3 - This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.	1 January 2020
Amendments to IAS 1 and IAS 8 - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.	1 January 2020

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

4.3 New and revised IFRSs applied with material effect on the condensed consolidated financial information

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note below.

The Group has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7%.

4 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

4.3 New and revised IFRSs applied with material effect on the condensed consolidated financial information (continued)

The change in accounting policy did not affect any items in the condensed consolidated statement of financial position on 1 January 2019 as the impact of the application of IFRS 16 on the Group is immaterial.

4.4 Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2018.

5 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the condensed consolidated statement of financial position and categories of financial instruments.

At 31 March 2019 (un-audited)	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total carrying amount AED'000
Financial assets				
Cash and deposits with central banks	-	-	777,952	777,952
Due from banks	-	-	125,680	125,680
Investment securities	7,968	137,062	14,629	159,659
Loans and advances to customers	-	-	10,050,735	10,050,735
Customers' indebtedness for acceptances	-	-	293,305	293,305
Other financial assets	-	-	73,853	73,853
	7,968	137,062	11,336,154	11,481,184
Financial liabilities				
Due to banks	-	-	226	226
Deposits from customers	-	-	10,901,907	10,901,907
Liabilities under acceptances	-	-	293,305	293,305
Other financial liabilities	-	-	261,143	261,143
	-	-	11,456,581	11,456,581

At 31 December 2018 (audited)	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total carrying amount AED'000
Financial assets				
Cash and deposits with central banks	-	-	1,968,369	1,968,369
Due from banks	-	-	733,460	733,460
Investment securities	8,063	133,255	14,629	155,947
Loans and advances to customers	-	-	10,075,374	10,075,374
Customers' indebtedness for acceptances	-	-	350,945	350,945
Other financial assets	34	-	46,088	46,122
	8,097	133,255	13,188,865	13,330,217
Financial liabilities				
Due to banks	-	-	199	199
Deposits from customers	-	-	12,635,484	12,635,484
Liabilities under acceptances	-	-	350,945	350,945
Other financial liabilities	-	-	231,069	231,069
	-	-	13,217,697	13,217,697

6 Cash and deposits with central banks

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Cash in hand	**67,014**	74,660
Deposits with central banks	**319,969**	1,457,634
Reserve requirements with the CBUAE (refer note 6.1)	**351,469**	387,720
Reserve requirements with the CB Lebanon (refer note 6.1)	**39,500**	48,355
	777,952	1,968,369

6.1 Statutory reserve deposits are required to be maintained as per regulations of the CBUAE and the CB Lebanon.

7 Due from banks

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Money market placements	**33,064**	605,967
Balances with other banks	**92,700**	127,657
	125,764	733,624
Less: Allowance for impairment (ECL)	**(84)**	(164)
	125,680	733,460
The geographical concentration is as follow		
- Within the U.A.E	**23,296**	615,578
- Outside the U.A.E	**102,468**	118,046
	125,764	733,624
Less: Allowance for impairment (ECL)	**(84)**	(164)
	125,680	733,460

8 Investment securities

The details of investments are as follows:

At 31 March 2019 (un-audited)	Domestic AED'000	Other GCC Countries AED'000	Others AED'000	Total AED'000
Financial assets measured at fair value through profit or loss (FVTPL):				
Investments in quoted equity securities	1,456	-	-	1,456
Investments in un -quoted funds	-	-	6,512	6,512
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in quoted equity securities	135,538	1,057	-	136,595
Investments in un-quoted equity securities	467	-	-	467
Financial assets at amortised cost:				
Investments in debt securities	14,646	-	-	14,646
	152,107	1,057	6,512	159,676
Less: Allowance for impairment (ECL)	(17)	-	-	(17)
	152,090	1,057	6,512	159,659

At 31 December 2018 (audited)	Domestic AED'000	Other GCC Countries AED'000	Others AED'000	Total AED'000
Financial assets measured at fair value through profit or loss (FVTPL):				
Investments in quoted equity securities	1,632	-	-	1,632
Investments in un -quoted funds	-	-	6,431	6,431
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in quoted equity securities	131,780	1,008	-	132,788
Investments in un-quoted equity securities	467	-	-	467
Financial assets at amortised cost:				
Investments in debt securities	14,646	-	-	14,646
	148,525	1,008	6,431	155,964
Less: Allowance for impairment (ECL)	(17)	-	-	(17)
	148,508	1,008	6,431	155,947

8.1 No equity investments was purchased by the Group during the three – month period ended 31 March 2019. (Year ended 31 December 2018: AED 29 million).

8 Investment securities (continued)

Fair value hierarchy

The table below analyses assets, measured at fair value at the end of the reporting period, by level into fair value hierarchy, into which the fair value measurement is categorised. As at the end of reporting period, liabilities measured at fair value are Nil (31 December 2018: Nil).

31 March 2019	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets				
FVTPL - equity securities	**1,456**	-	**6,512**	**7,968**
FVOCI - equity securities	**136,595**	-	**467**	**137,062**
Non-financial assets				
Repossessed properties (note 10)	-	-	**587,191**	**587,191**
	138,051	-	**594,170**	**732,221**
31 December 2018				
Financial assets				
FVTPL - equity securities	1,632	-	6,431	8,063
FVOCI - equity securities	132,788	-	467	133,255
Non-financial assets				
Repossessed properties (note 10)	-	-	587,191	587,191
	134,420	-	594,089	728,509

The following table shows a reconciliation of the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	Unaudited 31 March 2019		Audited 31 December 2018	
	Investment securities	**Repossessed properties**	Investment securities	Repossessed properties
	AED'000		AED'000	
As at 1 January	**6,898**	**587,191**	6,458	523,787
Fair value changes:				
- in profit or loss	**81**	-	258	(109,985)
- in OCI	-	-	-	-
Transfer				
- Additions	-	-	4,141	173,389
- Disposals	-	-	(3,959)	-
As at end of period	**6,979**	**587,191**	6,898	587,191

9 Loans and advances to customers

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Overdrafts	**6,673,423**	6,364,810
Bills discounted	**528,253**	526,350
Trust receipts	**586,889**	624,349
Term loans	**6,225,894**	6,302,624
	14,014,459	13,818,133
Allowances for impairment (refer note 9.1 and 9.2)	**(3,963,724)**	(3,742,759)
Net loans and advances to customers	**10,050,735**	10,075,374

9.1 The movement during the period/ year in the impairment provision is as follows:

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
At 1 January	**3,742,759**	1,510,217
Initial application of IFRS 9	**-**	299,700
At 1 January (adjusted as per IFRS 9)	**3,742,759**	1,809,917
Charge for the period/ year (refer note 9.2)	**162,739**	1,716,424
Write offs during the period/ year	**(16,105)**	(19,072)
Interest not recognised in the consolidated profit or loss statement	**74,396**	237,676
Amounts written off during the period/ year	**(65)**	(2,186)
At 31 March 2019/ 31 December 2018	**3,963,724**	3,742,759

9.2 Net impairment loss

	31 March 2019 (un-audited) AED'000	31 March 2018 (un-audited) AED'000
Impairment charge for the period	**162,739**	56,987
Recoveries and write offs *(refer note (i) below)*	**(16,195)**	(1,715)
Net impairment loss	**146,544**	55,272

(i) Includes AED 0.09 million (30 March 2018: AED 0.9 million) recovered from balances previously written off.

10 Other assets

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Interest receivable	**36,462**	31,251
Repossessed properties (refer to note 10.1)	**587,191**	587,191
Property plant and equipment (refer to note 11)	**97,435**	99,939
Prepayments and other assets	**35,824**	23,592
Customers' indebtedness for acceptances	**293,305**	350,945
	1,050,217	1,092,918

10.1 Repossessed properties were acquired in settlement of loans and advances.

11 Related party transactions

In the normal course or business, the Group enters into various transactions with related parties including Board of directors, their related companies and key management personnel having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties. The volume of related party transactions, outstanding balances at the year end, and related income and expenses for the year are as follows:

	31 March 2019 (un-audited)		**31 December 2018 (audited)**	
	Board of directors AED'000	**Companies associated with board of directors** AED'000	**Board of directors** AED'000	**Companies associated with board of directors** AED'000
Loans				
Loans outstanding	**63,697**	**763,694**	56,075	731,089
Deposits				
Deposits	**285,709**	**2,029,282**	267,538	731,089
Commitments and contingent liabilities				
Outstanding letters of credit and guarantees	**4,427**	**170,370**	5,375	187,029

None of the loans granted to related parties are impaired or past due as at 31 March 2019 (31 December 2018: Nil).

Notes to the condensed consolidated financial information for the three-month period ended 31 March 2019 (continued)

11 Related party transactions (continued)

The loans extended to directors during the period are repayable over 1 year and bear interest at rates ranging from 4% to 10% per annum (2018: 4% to 10%). At 31 March 2019, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 785.3 million (31 December 2018: AED 774.8 million).

	31 March 2019 (un-audited)		**31 March 2018 (un-audited)**	
	Board of directors AED'000	**Companies associated with board of directors** AED'000	**Board of directors** AED'000	**Companies associated with board of directors** AED'000
Interest income earned for three-month period ended	**723**	**8,829**	1,178	8,763
Interest expense earned for three-month period ended	**(2,173)**	**(16,208)**	(2,861)	(13,809)

Key management personnel

	31 March 2019 (un-audited) AED'000	31 March 2018 (un-audited) AED'000
Salaries and other short term benefits	**3,549**	3,225
Termination benefits	**182**	223
	3,731	3,448

12 Due to banks

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Demand deposits and total due to banks	**226**	199

13 Deposits from customers

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Time deposits	**8,543,220**	9,056,266
Savings accounts	**144,685**	131,394
Current and other accounts	**2,214,002**	3,447,824
	10,901,907	12,635,484

13.1 Customer deposits include AED 1,115 million received from the Government of Sharjah towards increase in share capital (note 2)

14 Other liabilities

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Interest payable	**140,054**	122,569
Unearned commission income	**37,439**	40,473
Accrued expenses	**60,620**	61,790
Liabilities under acceptances	**293,305**	350,945
Others	**85,619**	67,423
	617,037	643,200

15 Share capital

Share capital

At 31 March 2019, the Group' s authorised, issued and fully paid share capital was AED 1,588.13 million comprising 1,588.13 shares of AED 1 each (at 31 December 2018: AED 1,588.13 million comprising 1,588.13 million shares of AED 1 each).

As disclosed in note 2, subsequent to the period end, the issued and fully paid up share capital of the Bank has increased to AED 3.2 billion and its authorised share capital has increased to AED 6.3 billion.

Dividend

At the annual general meeting of the Bank held on 16 May 2019, no cash dividend was approved by the shareholders (2018: Nil).

15 Share capital (continued)

Capital adequacy ratio

As per the Central bank regulation for Basel III, the capital requirement as at 31 March 2019 is 13% inclusive of capital conservation buffer.

The bank must comply with the following minimum requirements:
(i) CET1 must be at least 7% of risk weighted assets (RWA);
(ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
(iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).

The capital adequacy ratio is computed based on circulars issued by the CBUAE as per Basel III.

The capital adequacy ratio (CAR) as computed in accordance with the above guidelines at 5.58% is below the regulatory threshold for 31 March 2019 of 13%.

The Group's regulatory capital position was as follows:

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Tier 1 Capital		
Share capital	**1,588,125**	1,588,125
Legal reserve	**450,688**	450,688
Special reserve	**450,688**	450,688
Fair value reserve	**(113,208)**	(117,015)
Retained earnings	**(1,731,220)**	(1,625,301)
Total tier 1 capital	**645,073**	747,185
Tier 2 Capital		
General provision	**163,493**	165,657
Total tier 2 capital	**163,493**	165,657
Total regulatory capital	**808,566**	912,842
Key weighted assets		
Credit risk	**13,079,471**	13,252,552
Market risk	**70,493**	54,740
Operational, risk	**1,348,694**	1,348,694
Total risk weighted assets (RWA)	**14,498,658**	14,655,986
Total regularity capital expressed as % of RWA	**5.58%**	6.23%
Total tier 1 capital expressed as % of RWA	**4.45%**	5.10%

15 Share capital (continued)

Had the strategic investment as disclosed in note 2, "Recapitalisation" been approved before 31 March 2019, the Capital Adequacy Ratio ("CAR") computation would have been as follows, subject to any reduction in the CAR arising from any additional regulatory provisions to be agreed upon by the Bank and CBUAE (Note 2).

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Tier 1 capital	**1,760,073**	1,862,185
Tier 2 capital	**163,493**	165,657
Total regularity capital	**1,923,566**	2,027,842
Total risk weighted assets	**14,498,658**	14,655,986
Total regularity capital expressed as % of RWA (CAR)	**13.27%**	13.84%
Total tier 1 capital expressed as % of RWA (CAR – Tier 1)	**12.14%**	12.71%

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

16 Segmental analysis

The Group operates in the United Arab Emirates and Lebanon, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	31 March 2019 (un-audited)			31 March 2018 (un-audited)		
	Commercial banking AED'000	**Treasury & investments** AED'000	**Total** AED'000	**Commercial banking** AED'000	**Treasury & investments** AED'000	**Total** AED'000
Net interest and other income	97,939	1,850	99,789	161,228	16,472	177,700
Net impairment loss	(147,221)	677	(146,544)	(55,272)	-	(55,272)
(Loss) / profit for the year	(106,792)	873	(105,919)	49,173	15,520	64,693
Segment capital expenditure	983	-	983	1,286	-	1,286
Segment depreciation	3,488	-	3,488	3,290	-	3,290

	31 March 2019 (un-audited)			31 December 2018 (audited)		
	Commercial banking AED'000	**Treasury & investments** AED'000	**Total** AED'000	**Commercial banking** AED'000	**Treasury & investments** AED'000	**Total** AED'000
Segment total assets	11,189,631	974,612	12,164,243	11,277,476	2,748,592	14,026,068
Segment total liabilities	11,518,139	1,031	11,519,170	13,090,721	188,162	13,278,883

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

17 Earnings per share

Basic earnings per share is based on the loss attributable to ordinary shareholders of the Bank and weighted average number of ordinary shares.

	31 March 2019 (un-audited)	31 March 2018 (un-audited)
(Loss)/ profit attributable to ordinary shareholders (AED'000)	**(105,919)**	64,693
Weighted average number of shares outstanding at 31 March (AED'000)	**1,588,125**	1,588,125
Earnings per share (AED)	**(0.07)**	0.04

At reporting date the Group does not have any instrument resulting in dilution of basic earnings per share.

18 Commitments and contingent liabilities

	31 March 2019 (un-audited) AED'000	31 December 2018 (audited) AED'000
Letters of credit	**285,265**	316,958
Letters of guarantee	**5,607,873**	6,160,794
Irrevocable commitments to extend credit	**126,754**	200,308
Foreign exchange and forward commitments	**116,022**	758,350
	6,135,914	7,436,410