SHARJAH ISLAMIC BANK PJSC

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
(UN-AUDITED)
31 MARCH 2020

SHARJAH ISLAMIC BANK PJSC

Directors' Report

The Directors have pleasure in presenting their report together with the condensed consolidated interim financial statements of SHARJAH ISLAMIC BANK PJSC ("the Bank") and its subsidiaries (together referred as the "Group") for the three month period ended 31 March 2020.

Financial highlights

The Group has reported a profit of AED 153.7 million for the three-month period ended 31 March 2020 compared to AED 151.7 million for the corresponding prior period, an increase of 1.3%.

Compared to December 2019, total assets increased by AED 2.9 billion to reach AED 49.3 billion, an increase of 6.2%. Investments in Islamic financing increased by 12.2% (AED 3.0 billion) to reach AED 28.2 billion and customer deposits experienced a growth of 15.3% (AED 4.2 billion) to reach AED 31.5 billion.

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Abdul Rahman Mohammed Nasser Al Owais
Chairman
xx March 2020

SHARJAH ISLAMIC BANK PJSC
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020
(Currency: Thousands of U.A.E Dirhams)

	Notes	**31 March 2020 Un-audited**	**31 December 2019 Audited**
Assets			
Cash and balances with banks and financial institutions	*5*	**2,397,148**	2,450,754
Murabaha and wakalah with financial institutions	*6*	**7,342,640**	7,948,109
Investment in Islamic financing	*7*	**28,215,922**	25,142,892
Investment securities	*8*	**6,302,788**	5,827,239
Investment properties		**2,748,555**	2,699,959
Properties held-for-sale		**586,298**	579,478
Other assets		**726,657**	817,809
Property and equipment	*9*	**930,391**	924,221
Total assets		**49,250,399**	**46,390,461**
Liabilities			
Customers deposits	*10*	**31,491,932**	27,313,057
Due to banks		**5,802,241**	5,128,007
Sukuk payable	*11*	**3,667,479**	5,503,139
Other liabilities	*12*	**867,232**	854,636
Zakat payable		**5,312**	62,435
Total liabilities		**41,834,196**	**38,861,274**
Shareholders' equity			
Share capital	*13*	**3,081,598**	2,934,855
Tier 1 sukuk	*14*	**1,836,500**	1,836,500
Legal reserve		**1,467,428**	1,467,428
Statutory reserve		**89,008**	89,008
General impairment reserve		**188,214**	132,745
Fair value reserve		**(44,927)**	23,390
Retained earnings		**798,382**	1,045,261
Total shareholders' equity		**7,416,203**	**7,529,187**
Total liabilities and shareholders' equity		**49,250,399**	**46,390,461**

These condensed consolidated interim financial statements were authorised for issue in accordance with a resolution of the Directors on xx.

Abdul Rahman Mohammed Nasser Al Owais
Chairman

Mohammed Ahmed Abdullah
Chief Executive Officer

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

SHARJAH ISLAMIC BANK PJSC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2020 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

	Three month period ended 31 March 2020 Un-audited	**Three month period ended 31 March 2019 Un-audited**
Income from Islamic financing and sukuks	**423,877**	438,477
Profit expense on sukuks	**(45,551)**	(47,613)
Investment, fees, commission and other income	**57,250**	61,173
Income from subsidiaries	**21,178**	20,021
Total income	**456,754**	**472,058**
General and administrative expenses	**(134,976)**	(142,860)
Net operating income before provisions and distribution to depositors	**321,778**	**329,198**
Provisions - net of recoveries	**(13,544)**	(664)
Net operating income before distribution to depositors	**308,234**	**328,534**
Distribution to depositors	**(154,574)**	(176,788)
Profit for the period	**153,660**	**151,746**
(Attributable to the shareholders of the Bank)		
Basic and diluted earnings per share (U.A.E. Dirhams)	**0.05**	**0.05**

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

SHARJAH ISLAMIC BANK PJSC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2020 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

	Three month period ended 31 March 2020	Three month period ended 31 March 2019
Profit for the period	**153,660**	151,746
Other comprehensive income		
Items that will be reclassified to profit or loss		
Net change in fair value reserve on sukuk investments classified at FVTOCI	**(50,886)**	36,503
Items that will not be reclassified to profit or loss		
Net change in fair value reserve on equity investments classified at FVTOCI	**(17,691)**	3,006
Total comprehensive income for the period	**85,083**	**191,255**
(Attributable to the shareholders of the Bank)		

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

SHARJAH ISLAMIC BANK PJSC
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2020 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

	Three month period ended 31 March 2020 (Unaudited)	**Three month period ended 31 March 2019 (Unaudited)**
Cash flows from operating activities		
Profit for the period	**153,660**	**151,746**
Adjustments for:		
- Depreciation	**10,895**	12,230
- Amortisation of sukuk issuance costs	**840**	883
- Provision charge for the period	**13,544**	664
- Gain on sale of properties held-for-sale	**(1,253)**	(1,056)
Operating profit before changes in operating assets and liabilities	**177,686**	**164,467**
Changes in:		
- Reserve with UAE Central Bank	**58,625**	23,330
- Murabaha and wakalah with financial institutions	**873,739**	(188,030)
- Investments in Islamic financing	**(3,086,574)**	(357,743)
- Other assets	**91,152**	132,323
- Customers' deposits	**4,178,875**	3,417
- Due to banks	**1,489,118**	(116,766)
- Zakat payable	**(57,123)**	(45,502)
- Other liabilities	**7,185**	68,836
Net cash generated from / (used in) operating activities	**3,732,683**	**(315,668)**
Cash flows from investing activities		
Properties and equipment – net	**(17,065)**	(59,431)
Acquisition of investment properties	**(48,596)**	(74,627)
Disposal of investment properties	**-**	8,744
Acquisition of properties held-for-sale	**(14,795)**	(11,144)
Disposal of properties held-for-sale	**9,230**	6,103
Investment securities, net	**(544,126)**	132,841
Net cash (used in) / from investing activities	**(615,352)**	**2,486**
Cash flows from financing activities		
Repayment of sukuk	**(1,836,500)**	-
Profit paid on tier 1 sukuk	**(45,915)**	-
Cash dividend	**(146,743)**	(234,788)
Net cash used in financing activities	**(2,029,158)**	**(234,788)**
Net increase / (decrease) in cash and cash equivalents	**1,088,173**	**(547,970)**
Cash and cash equivalents at the beginning of the period	**4,781,727**	**3,093,288**
Cash and cash equivalents at the end of the period	**5,869,900**	**2,545,318**
Cash and cash equivalents comprise of:		
Cash and balances with banks and financial institutions	**766,510**	756,326
Murabaha and wakalah with financial institutions	**5,883,605**	3,934,104
Due to banks	**(780,215)**	(2,145,112)
	5,869,900	**2,545,318**

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

SHARJAH ISLAMIC BANK PJSC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2020 (un-audited)

(Currency: Thousands of U.A.E. Dirhams)

							ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	
	Share capital	**Tier 1 sukuk**	**Legal reserve**	**Statutory reserve**	**General impairment reserve**	**Fair value reserve**	**Retained earnings**	**Total shareholders' equity**
As at 1 January 2019 (Audited)	**2,934,855**	**-**	**1,429,264**	**89,008**	**66,717**	**(87,537)**	**955,325**	**5,387,632**
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	151,746	**151,746**
Other comprehensive income								
Net change in fair value reserve	-	-	-	-	-	39,509	-	**39,509**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**39,509**	**151,746**	**191,255**
Transactions recorded directly in equity								
Dividends declared	-	-	-	-	-	-	(234,788)	**(234,788)**
Board of directors' fees	-	-	-	-	-	-	(5,387)	**(5,387)**
Total	-	-	-	-	-	-	**(240,175)**	**(240,175)**
As at 31 March 2019 (Un-audited)	**2,934,855**	**-**	**1,429,264**	**89,008**	**66,717**	**(48,028)**	**866,896**	**5,338,712**
As at 1 January 2020 (Audited)	**2,934,855**	**1,836,500**	**1,467,428**	**89,008**	**132,745**	**23,390**	**1,045,261**	**7,529,187**
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	**153,660**	**153,660**
Other comprehensive income								
Net change in fair value reserve	-	-	-	-	-	**(68,577)**	-	**(68,577)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(68,577)**	**153,660**	**85,083**
Transactions recorded directly in equity								
Realised loss on equity investments measured at FVTOCI transferred to retained earnings	-	-	-	-	-	**260**	**(260)**	-
Bonus shares issued	**146,743**	-					**(146,743)**	-
Dividends declared	-	-	-	-	-	-	**(146,743)**	**(146,743)**
Transfer to general impairment reserve	-	-	-	-	**55,469**	-	**(55,469)**	-
Profit paid on tier 1 sukuk		-					**(45,913)**	**(45,913)**
Board of directors' fees	-	-	-	-	-	-	**(5,411)**	**(5,411)**
Total	**146,743**	**-**	**-**	**-**	**-**	**260**	**(400,539)**	**(198,067)**
As at 31 March 2020 (Un-audited)	**3,081,598**	**1,836,500**	**1,467,428**	**89,008**	**188,214**	**(44,927)**	**798,382**	**7,416,203**

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

1. Legal status and activities

SHARJAH ISLAMIC BANK PJSC (the "Bank") was incorporated in 1975 as a public joint stock company by Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and is listed on the Abu Dhabi Securities Exchange. The Bank is engaged in banking, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulations of the UAE Central Bank, which are carried out through its 35 branches (2019: 36 branches) established in the United Arab Emirates.

At an extraordinary shareholder's meeting held on 18 March 2001, a resolution was passed to transform the Bank's activities to be in full compliance with Islamic Shari'a rules and principles. The entire process was completed on 30 September 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the three month period ended 30 September 2002 after negotiation and agreement with its customers.

The condensed consolidated interim financial statements of the Bank comprise the Bank and its fully owned subsidiaries incorporated in the United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Services LLC (SIFS) and ASAS Real Estate as well as special purpose vehicles established in the Cayman Islands, SIB Sukuk Company III Limited and SIB Tier 1 Sukuk Company Limited, (all together referred to as "the Group"). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. ASAS is involved in the business of real estate. SIB Sukuk Company III Limited and SIB Tier 1 Sukuk Company Limited were established for the Bank's Sukuk program.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Basis of preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Selected explanatory notes, particularly in relation to the adoption of IFRS 16, are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2019. These condensed consolidated interim financial statements do not include all of the information required for a full set of annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group as at and for the year ended 31 December 2019.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for the following material items in the condensed consolidated interim statement of financial position:

- financial assets at fair value through profit or loss (FVTPL);
- financial assets at fair value through other comprehensive income (FVTOCI); and
- investment properties at fair value.

2. Basis of preparation (continued)

c) Functional and reporting currency

These condensed consolidated interim financial statements have been prepared in UAE Dirhams (AED), which is the Group's functional and presentation currency. All information presented in AED has been rounded to the nearest thousand, except when otherwise stated.

d) Key accounting estimates & judgments

The preparation of condensed consolidated interim financial statements requires management to make judgements, 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.

In preparing these condensed consolidated interim financial statements, 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 statements are described as follows:

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (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 ("expected credit loss"), such as:

- Determining the criteria for significant increase in credit risk;
- 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 purpose of measuring ECL.

3. Summary of significant accounting policies

The accounting policies applied by the Group in preparation of these condensed consolidated interim financial statements are consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2019.

4. Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the annual consolidated financial statements as at and for the year ended 31 December 2019.

a) Maximum exposure to credit risk

The table below is the maximum exposure to credit risk for the Group and is shown gross, before any mitigation of collateral.

	31 March 2020 (Unaudited)			
	ECL Staging			
	Stage 1 12 month	Stage 2 Lifetime	Stage 3 Lifetime	Total
Cash and balances with banks and financial institutions	**237,595**	**-**	**-**	**237,595**
Loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**237,595**	**-**	**-**	**237,595**
Murabaha and wakalah with financial institutions	**4,193,036**	**-**	**-**	**4,193,036**
Loss allowance	**(396)**	**-**		**(396)**
Carrying amount	**4,192,640**	**-**	**-**	**4,192,640**
Investments in Islamic financing	**26,153,479**	**1,749,411**	**1,437,557**	**29,340,447**
Loss allowance	**(203,120)**	**(101,657)**	**(819,748)**	**(1,124,525)**
Carrying amount	**25,950,359**	**1,647,754**	**617,809**	**28,215,922**
Investment securities measured at amortised cost	**4,349,662**	**-**	**62,337**	**4,411,999**
Loss allowance	**(3,684)**	**-**	**(53,065)**	**(56,749)**
Carrying amount	**4,345,978**	**-**	**9,272**	**4,355,250**
Investment securities measured at FVTOCI	**869,551**	**-**	**-**	**869,551**
Loss allowance	**(580)**	**-**	**-**	**(580)**
Carrying amount	**868,971**	**-**	**-**	**868,971**
Other assets (excluding non-financial assets)	**597,692**	**186**	**28,747**	**626,625**
Loss allowance	**(8,400)**	**(1)**	**(28,747)**	**(37,148)**
Carrying amount	**589,292**	**185**	**-**	**589,477**
Net credit risk exposures relating to on-balance sheet assets	**36,184,835**	**1,647,939**	**627,081**	**38,459,855**
Letter of credit and guarantee	**784,189**	**2,785**	**57,308**	**844,282**
Loss allowance	**(2,893)**	**(44)**	**-**	**(2,937)**
Net credit risk exposures relating to off-balance sheet assets	**781,296**	**2,741**	**57,308**	**841,345**
	36,966,131	**1,650,680**	**684,389**	**39,301,200**
Gross credit risk exposure	**37,185,204**	**1,752,382**	**1,585,949**	**40,523,535**
Total ECL	**(219,073)**	**(101,702)**	**(901,560)**	**(1,222,335)**
	36,966,131	**1,650,680**	**684,389**	**39,301,200**

4. Financial risk management (continued)

a) Maximum exposure to credit risk (continued)

	31 December 2019 (Audited)			
	ECL Staging			
	Stage 1 12 month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
Cash and balances with banks and financial institutions	226,851	98	-	**226,949**
Loss allowance	-	-	-	**-**
Carrying amount	**226,851**	**98**	**-**	**226,949**
Murabaha and wakalah with financial institutions	4,498,456	-	-	**4,498,456**
Loss allowance	(347)	-	-	**(347)**
Carrying amount	**4,498,109**			**4,498,109**
Investments in Islamic financing	23,555,984	1,354,745	1,350,541	**26,261,270**
Loss allowance	(194,801)	(113,428)	(810,149)	**(1,118,378)**
Carrying amount	**23,361,183**	**1,241,317**	**540,392**	**25,142,892**
Investment securities measured at amortised cost	3,620,369	-	62,337	**3,682,706**
Loss allowance	(3,174)	-	(53,065)	**(56,239)**
Carrying amount	**3,617,195**	**-**	**9,272**	**3,626,467**
Investment securities measured at FVTOCI	936,472	-	-	**936,472**
Loss allowance	(928)	-	-	**(928)**
Carrying amount	**935,544**	**-**	**-**	**935,544**
Other assets (excluding non-financial assets)	699,147	380	28,549	**728,076**
Loss allowance	(8,459)	(3)	(28,549)	**(37,011)**
Carrying amount	**690,688**	**377**	**-**	**691,065**
Net credit risk exposures relating to on-balance sheet assets	**33,329,570**	**1,241,792**	**549,664**	**35,121,026**
Letter of credit and guarantee	441,563	3,501	31	**445,095**
Loss allowance	(2,089)	(53)	-	**(2,142)**
Net credit risk exposures relating to off-balance sheet assets	**439,474**	**3,448**	**31**	**442,953**
	33,769,044	**1,245,240**	**549,695**	**35,563,979**
Gross credit risk exposure	**33,978,842**	**1,358,724**	**1,441,458**	**36,799,024**
Total ECL	**(209,798)**	**(113,484)**	**(891,763)**	**(1,215,045)**
	33,769,044	**1,245,240**	**549,695**	**35,563,979**

4. Financial risk management (continued)

b) Impact of Covid-19 and revision to forward looking information with respect to expected credit losses

On 11 March 2020, the World Health Organization ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. This note describes the impact of the outbreak on the Bank's operations and the significant estimates and judgements applied by management in assessing the values of financial assets and liabilities as at 31 March 2020.

I. Credit risk management

In response to the COVID-19 outbreak, the Bank's Risk management division identified the vulnerable sectors that are significantly impacted by this stressed situation, and reviews are being conducted on a more frequent basis. The existing corporate credit lines are being reviewed and the utilization is being closely monitored. As at 31 March 2020, 36% *(31 December 2019: 27%)* of the Bank’s investment in Islamic finance consist of GRE and Government sector. Upon internal assessment of the Bank’s remaining portfolio, other than GRE and Government, the management has concluded that there has not been any significant increase in credit risk due to well diversification of portfolio, posing minimal direct COVID-19 threat.

The Bank has been extra vigilant in underwriting to companies in the vulnerable sectors, especially for any first time customers. Extra measures, such as requiring additional approvals for disbursals of facilities have been implemented to ensure a high level of scrutiny over the credit management process. The Bank is conducting frequent reviews of the Loan to Value ("LTV") ratios on the securities held against facilities, specifically securities which are illiquid in nature. Moreover, the management has reviewed all of its credit lending policies to address the current increasing economic risk for different sectors.

II. Liquidity risk management

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and currently being frequently monitored and evaluated, as Government’s around the world reel into provide relief measurements to mitigate the adverse effects of the global economic crisis.

The UAE Central Bank, referred to as “CBUAE”, has announced AED 256 billion stimulus package in an attempt to combat the above effects of COVID-19 and ease the liquidity constraints in the UAE Banking sector, by providing relief to the local economy. The stimulus package includes the following:

1) Launch of the Targeted Economic Support Scheme ('TESS'), which allows banks to grant temporary relief to impacted customers in the way of deferring payments for up to 6 months, and allowing banks to apply for zero-cost funding from the CBUAE;
2) Granted an extension of the capital buffer relief to 31 December 2021 for banks participating in the TESS program;
3) Reduction of the reserve requirements by half for demand deposits for all banks, from 14% to 7%;
4) Planned implementation of certain Basel III capital requirements will be postponed to 31 March 2021; and
5) Reduction in minimum required ELAR from 10% to 7%.

4. Financial risk management (continued)

b) Impact of Covid-19 and revision to forward looking information with respect to expected credit losses (continued)

II. Liquidity risk management (continued)

The Bank's management of liquidity risk is disclosed in note 4 (ii) (b) to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019. In response to the COVID 19 outbreak, the Bank is evaluating its liquidity and funding position and has taken into consideration all the reliefs provided by the CBUAE. Further, the Bank has taken the following actions to manage liquidity risks:

1) Monitoring the movements and composition of its deposits on a daily basis;
2) Monitoring the adherence to regulatory ratios, including ELAR and LSRR on a daily basis. As of reporting date ELAR stands at 16%, well above the minimum requirement of 10% (without incentive from CBUAE) and 7% (after reduction in the requirement from CBUAE), whereas LSRR stands at 71.57% as against the maximum allowed of 100% by CBUAE.
3) Developing contingency plans and opening up new funding lines in the treasury and inter-bank markets of other GCC countries;
4) Developing stress testing scenarios to assess the impact on the Bank in extreme stress; and
5) Bank as of the reporting date holds sovereign marketable securities amounting AED 1.3 billion which can be utilised in case of extreme liquidity shortage, if required.

III. Use of estimates and judgements

SICR, EAD, LGD and macroeconomic scenarios for computation of ECL

The Bank exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. Given the lack of availability of precise data and limited changes in customers' behavior in the first quarter, the Bank has taken the approach of stressing different input factors in the computation of the ECL model by incorporating forward-looking information. As the situation is fast evolving, the full economic outcomes of the COVID 19 pandemic are currently unknown and difficult to predict, Upon reassessment of stage 1 and stage 2 customers as of the reporting date, there is no increase in credit risk profile of the bank.

The Bank considers a range of possible outcomes and their respective probabilities, and to apply judgement in determining what constitutes reasonable and forward looking information. The volatility caused by the current situation has been reflected through adjustment in the methods of forward looking scenario construction. The most significant period-end assumptions used for ECL estimate includes next 5-year average oil price ranging between US$ 28.5/barrel to US$ 64.9/barrel, equity price index growth volatility ranging between -16% to 6%, non-oil UAE GDP range falling 4.4% to rising 5.4% and UAE CPI index range falling 3.6% to rising 4.3%.

Management will continually monitor how the economic conditions change over the next quarter and will re- evaluate the adequacy of downside weight, and adverse effect, if any, will be accounted for.

Judgement is also required in estimating EAD, particularly for Islamic financing commitments, including letters of credit and guarantee, and revolving credit facilities such as credit cards, where deterioration in the macro economic environment is generally accompanied by an increase in the volumes and duration of the drawdowns. Credit conversion factor used by the Bank for unutilized limits has been set at 20%, thus stressing EAD to current situation.

The COVID 19 related impact on LGD, the Bank has computed ECL using stressed BASEL LGD of 60% for real estate, construction and contracting and consumer home financing sectors. Islamic financing to individuals' accounts for 10% of the total gross portfolio; ECL on which has been computed based on stressed LGD of as high as 91.9%. Had the Bank increased its weightage to the pessimistic scenario by another 10%, the Bank would have recognised an additional ECL provision of AED 28 million.

4. Financial risk management (continued)

b) Impact of Covid-19 and revision to forward looking information with respect to expected credit losses (continued)

IV. Business continuity plan

In light of current scenarios caused by COVID 19, the Bank has activated its business continuity policy (BCP). In light of the BCP, the Bank has established a system of a secured remote access management system with dual authentication access and functioning of its operations, IT systems and client’s digital channels. For this purpose the Bank has designed standard operating procedures which are duly followed. The Bank also has appropriate cyber security architecture to support its commercial assets and customers without any interruption to business activities through its comprehensive digital channels. Moreover, the bank has engaged with a third party to review the security of the current working environment.

c) Capital adequacy initiatives

The outreaching impact of COVID 19 is expected to impact the Bank's Risk Weightage Assets via higher charges arising from increased volatility and higher counter party risks. The implementation of the requirements of IFRS 9 Expected Credit Losses in a less favorable economic outlook is expected to increase the credit risk weights of financing and also increase provision allowances and hence impacts the Bank's strong capital adequacy, which currently stands at 21.11% *(31 December 2019: 22.79%)*. The Bank expects CAR in an extreme stressed scenario to remain well above the UAE banking sector average and the baseline CBUAE BASEL III requirement of 13%, including capital conservation buffer of 2.5%.

In order to relieve the pressure on financial institutions, the CBUAE, vide its official paper issued on 5 April 2020, has allowed banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of the expected volatility due to the COVID 19 crisis. The filter will allow Banks to partially add incremental ECL provisions back to their Tier 2 capital for the purpose of calculating capital adequacy ratios. Banks are however required to reverse this capital benefit in a gradual and phased manner over a period of 5 years (ending on 31 December 2024). The CBUAE has also granted extension of the capital buffer relief to 31 December 2021 for banks enrolled in the TESS program. The Bank's Risk Committee, in liaison with the Risk Management department is constantly monitoring the developments in relation to the outbreak and is continually monitoring the Bank's ability to maintain adequate capital levels at all times, in both existing and stressed scenarios.

4. Financial risk management (continued)

d) Capital adequacy

The capital adequacy ratio is based on Basel III and the Central Bank of the UAE (CBUAE) rules and guidelines:

	Basel III	
	31 March 2020 Un-audited	**31 December 2019 Audited**
Capital base		
Common Equity tier 1	**5,422,711**	5,244,021
Additional tier 1 capital	**1,836,500**	1,836,500
Total tier 1 capital base	**7,259,211**	**7,080,521**
Total tier 2 capital base	**424,162**	380,085
Total capital base	**7,683,373**	**7,460,606**
Risk weighted assets		
Credit risk	**33,932,923**	30,406,780
Market risk	**224,428**	85,650
Operational risk	**2,238,802**	2,238,802
Total risk weighted assets	**36,396,153**	**32,731,232**
Capital Ratios		
Common equity tier 1 ratio	**14.90%**	16.02%
Tier 1 capital ratio	**19.94%**	21.63%
Capital adequacy ratio	**21.11%**	22.79%

5. Cash and balances with banks and financial institutions

Cash		**527,104**	533,859
Statutory deposit with CBUAE		**1,630,638**	1,689,263
Due from banks	*5.1*	**239,406**	227,632
		2,397,148	**2,450,754**

5.1 Due from banks includes current account balance with the CBUAE amounting to AED 4.2 million *(31 December 2019: AED 4.8 million).*

6. Murabaha and wakalah with financial institutions

Murabaha		**352,513**	1,267,517
Wakala arrangements	*6.1*	**6,990,127**	6,680,592
		7,342,640	**7,948,109**

6.1 Wakala arrangements with financial institutions includes' Islamic certificates of deposit with CBUAE amounting AED 3.1 billion *(31 December 2019: AED 3.5 billion).*

7. Investments in Islamic financing

Investments in Islamic financing are secured by acceptable forms of collateral to mitigate the related credit risk. Investments in Islamic financing comprise the following:

	31 March 2020 Un-audited	31 December 2019 Audited
Vehicle murabaha	**239,789**	246,861
Goods murabaha	**8,494,739**	7,248,656
Real estate murabaha	**49,658**	54,203
Other murabaha receivable	**479,943**	439,866
Syndicate murabaha	**1,336,138**	1,484,639
Gross murabaha financing	**10,600,267**	**9,474,225**
Less: deferred profit	**(1,063,658)**	(820,580)
Net murabaha financing	**9,536,609**	**8,653,645**
Ijara financing	**16,591,203**	14,658,166
Qard hasan	**358,598**	267,898
Credit card receivables	**77,235**	81,202
Istisna	**2,776,802**	2,600,359
Total investments in Islamic financing	**29,340,447**	**26,261,270**
Less: Loss allowance for investments in Islamic financing	**(1,124,525)**	(1,118,378)
	28,215,922	**25,142,892**

8. Investment securities

Financial assets at fair value through profit or loss		
- Equity and funds	**40,838**	40,624
- Sukuk	**88,528**	256,778
	129,366	**297,402**
Financial assets at fair value through other comprehensive income		
- Equity and funds	**949,201**	967,826
- Sukuk	**869,551**	936,472
	1,818,752	**1,904,298**
Less: Loss allowance on financial assets measured at FVTOCI	**(580)**	(928)
	1,818,172	**1,903,370**
Financial assets measured at amortised cost		
- Sukuk	**4,411,999**	3,682,706
Less: Loss allowance on financial assets measured at amortised cost	**(56,749)**	(56,239)
	4,355,250	**3,626,467**
	6,302,788	**5,827,239**

8.1 Sukuk held at amortised cost include AED 3,483 million *(31 December 2019: AED 3,271 million)* pledged against a collateralized commodity murabaha arrangement.

9. Property and equipment

	31 March 2020 Un-audited	31 December 2019 Audited
Freehold land and buildings	**729,894**	733,868
Equipment, furniture and fittings	**14,804**	16,371
Computer equipment	**50,428**	52,901
Motor vehicles	**1,006**	1,195
Right of use assets	**57,399**	60,955
Capital - work in progress	**76,860**	58,931
	930,391	**924,221**

10. Customers' deposits

Current accounts	**7,500,382**	7,268,962
Saving accounts	**2,383,060**	2,227,267
Watany / call accounts	**722,979**	417,513
Time deposits	**20,242,392**	16,795,806
Margins	**643,119**	603,509
	31,491,932	**27,313,057**

11. Sukuk payable

Name of instrument	Maturity date	31 March 2020 Un-audited		31 December 2019 Audited	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk 2020	17 March 2020	**-**	-	1,836,289	2.843%
SIB Sukuk 2021	8 September 2021	**1,834,559**	3.084%	1,834,222	3.084%
SIB Sukuk 2023	17 April 2023	**1,832,920**	4.231%	1,832,628	4.231%
		------------		------------	
Total		**3,667,479**		**5,503,139**	
		=======		=======	

12. Other liabilities

	31 March 2020 Un-audited	31 December 2019 Audited
Profit payable	**241,415**	242,156
Accrual and provision	**59,056**	47,974
Accounts payable	**154,360**	142,626
Provision for staff end of service benefits	**71,874**	70,769
Managers' cheques	**24,896**	24,462
Obligations under acceptances	**110,867**	102,708
Sundry creditors	**204,764**	223,941
	867,232	**854,636**

13. Share capital

The Bank's issued and fully paid up share capital comprises 3,081,598,000 shares of AED 1 each.

	31 March 2020 Un-audited		**31 December 2019 Audited**	
	No. of shares	Value	No. of shares	Value
Share capital	**3,081,598,000**	**3,081,598**	2,934,855,000	2,934,855

14. Tier 1 sukuk

In July 2019, the Bank issued Shari'ah compliant Tier 1 sukuk through an SPV, SIB Tier 1 Sukuk Company Limited, ("the issuer") amounting to USD 500 million (AED 1,836.5 million) at par.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudarabah Agreement. These sukuk are expected to pay profit semi-annually of 5% each year, commencing from 02 July 2019. The expected profit rate will be reset to a new fixed rate on the basis of the then prevailing reoffer spread of 321.30 bps on 02 July 2025 ("the first reset date") and every 6 years thereafter. These sukuk are listed on Euronext Dublin and Nasdaq Dubai and are callable by the Bank on 02 July 2025 ("the first call date") or any profit payment date thereafter subject to certain redemption conditions. The net proceeds of Tier 1 are invested by the Bank in its general business activities on a co-mingling basis.

At the Issuer's sole discretion, it may elect not to make any Mudarabah profit distributions expected and the event is not considered an event of default. In such an event, the Mudarabah profit will not be accumulated but forfeited to the issuer. If the issuer makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

15. Segment reporting

The Group's activities comprise the following main business segments:

a) Government and corporate

Within this business segment the Bank provides companies, institutions and government and government departments with a range of Islamic financial products and services. This includes exposure to high net worth individuals.

b) Retail

The retail segment provides a wide range of Islamic financial services to individuals.

c) Investment and treasury

This segment mainly includes wakalah deals with other financial institutions, investments securities, investment properties and other money market activities.

d) Real estate, hospitality, and brokerage

The Bank on its own and through its subsidiary ASAS provides real estate services, whereas SNH and SIFS provides hospitality and brokerage services respectively.

15. Segment reporting (continued)

For the three month period ended 31 March 2020 (Unaudited):	Corporate and government	Retail	Investment and treasury	Hospitality, brokerage and real estate	Total
Condensed consolidated interim statement of profit or loss:					
Income from investments in Islamic financing and sukuks	**225,491**	**86,312**	**112,074**	**-**	**423,877**
Profit expense on sukuks	**-**	**-**	**(45,551)**	**-**	**(45,551)**
Investments, fees, commission and other income	**28,863**	**17,797**	**10,590**	**-**	**57,250**
Income from subsidiaries	**-**	**-**	**-**	**21,178**	**21,178**
Total income	**254,354**	**104,109**	**77,113**	**21,178**	**456,754**
General and administrative expenses				**(15,149)**	**(15,149)**
General and administrative expenses – unallocated	**-**	**-**	**-**	**-**	**(119,827)**
Net operating income before provisions and distributions to depositors	**254,354**	**104,109**	**77,113**	**6,029**	**321,778**
Provisions- net of recoveries	**(816)**	**(13,308)**	**940**	**(360)**	**(13,544)**
Net operating income before distribution to depositors	**253,538**	**90,801**	**78,053**	**5,669**	**308,234**
Distribution to depositors	**(112,738)**	**(10,736)**	**(31,100)**	**-**	**(154,574)**
Profit for the period	**140,800**	**80,065**	**46,953**	**5,669**	**153,660**
As at 31 March 2020 (Unaudited):					
Condensed consolidated interim statement of financial position:					
Assets					
Segment assets	**22,989,045**	**4,953,297**	**19,296,526**	**1,544,251**	**48,783,119**
Unallocated assets	**-**	**-**	**-**	**-**	**467,280**
Total assets	**22,989,045**	**4,953,297**	**19,296,526**	**1,544,251**	**49,250,399**
Liabilities					
Segment liabilities	**25,119,998**	**5,101,359**	**11,114,442**	**110,112**	**41,445,911**
Unallocated liabilities	**-**	**-**	**-**	**-**	**388,285**
Total liabilities	**25,119,998**	**5,101,359**	**11,114,442**	**110,112**	**41,834,196**

15. Segment reporting (continued)

For the three month period ended 31 March 2019 (Unaudited):	**Corporate and Government**	**Retail**	**Investment and treasury**	**Hospitality, brokerage and real estate**	**Total**
Condensed consolidated interim statement of profit or loss:					
Income from investments in Islamic financing and sukuks	224,782	85,652	128,043	-	438,477
Profit expense on Sukuk	-	-	(47,613)	-	(47,613)
Investments, fees, commission and other income	26,910	19,418	14,845	-	61,173
Income from subsidiaries	-	-	-	20,021	20,021
Total income	**251,692**	**105,070**	**95,275**	**20,021**	**472,058**
General and administrative expenses				**(12,104)**	**(12,104)**
General and administrative expenses – unallocated	**-**	**-**	**-**	**-**	**(130,756)**
Net operating income before provisions and distributions to depositors	**251,692**	**105,070**	**95,275**	**7,917**	**329,198**
Provisions- net of recoveries	(4,912)	5,618	(1,370)	-	(664)
Net operating income before distribution to depositors	**246,780**	**110,688**	**93,905**	**7,917**	**328,534**
Distribution to depositors	(119,777)	(12,546)	(44,465)	-	(176,788)
Profit for the period	**127,003**	**98,142**	**49,440**	**7,917**	**151,746**
As at 31 December 2019 (Audited):					
Consolidated statement of financial position:					
Assets					
Segment assets	20,646,300	4,869,564	18,825,314	1,537,870	**45,879,048**
Unallocated assets	-	-	-	-	**511,413**
Total assets	**20,646,300**	**4,869,564**	**18,825,314**	**1,537,870**	**46,390,461**
Liabilities					
Segment liabilities	22,000,618	4,923,001	11,434,065	58,927	**38,416,611**
Unallocated liabilities	-	-	-	-	**444,663**
Total liabilities	**22,000,618**	**4,923,001**	**11,434,065**	**58,927**	**38,861,274**

16. Related parties

In the normal course of business, the Group enters into various transactions with enterprises and key management personnel which falls within the definition of related parties as defined in IAS 24. Key management personnel are those persons 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, which in the opinion of management, are not significantly different from those that could have been obtained from third parties.

16. Related parties (continued)

At the reporting date, such significant balances include:

	31 March 2020 (Un-audited)			
Condensed consolidated interim statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
Investment in Islamic financing	**631,642**	**2,585,414**	**3,411,028**	**6,628,084**
Customers deposits	**(131,723)**	**(437,186)**	**(4,347,181)**	**(4,916,090)**
Contingent liabilities – off balance sheet	**133,389**	**5,957**	**8,844**	**148,190**
Condensed consolidated interim statement of profit or loss for the three month period ended 31 March 2020				
Income from Islamic financing	**7,143**	**27,036**	**16,812**	**50,991**
Depositors' share of profit	**(246)**	**(1,066)**	**(16,944)**	**(18,256)**

	31 December 2019 (Audited)			
Condensed consolidated interim statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
Investment in Islamic financing	593,638	2,832,627	1,773,867	**5,200,132**
Customers deposits	(118,518)	(480,881)	(3,112,358)	**(3,711,757)**
Contingent liabilities – off balance sheet	102,957	13,463	8,798	**125,218**
Condensed consolidated interim statement of profit or loss for the three month period 31 March 2019 (Un-audited)				
Income from Islamic financing	2,842	34,690	51,430	**88,962**
Depositors' share of profit	(427)	(722)	(13,291)	**(14,440)**

Key management compensation includes salaries and other short term benefits of AED 6.3 million for the three month period ended 31 March 2020 *(three month period ended 31 March 2019: AED 6.4 million)* and post-employment benefits of AED 0.3 million for the three month period ended 31 March 2020 *(three month period ended 31 March 2019: AED 0.4 million)*.

17. Fair value measurement

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
At 31 March 2019 (Un-audited)				
Financial assets				
FVTPL – investment securities	**80,426**	-	**48,940**	**129,366**
FVTOCI – investment securities	**1,595,019**	-	**223,153**	**1,818,172**
	1,675,445	-	**272,093**	**1,947,538**
Non-financial assets				
Investment properties at fair value	**-**	-	**2,748,555**	**2,748,555**
At 31 December 2019 (Audited)				
Financial assets				
FVTPL – investment securities	266,129	-	31,273	**297,402**
FVTOCI – investment securities	1,679,023	-	224,347	**1,903,370**
	1,945,152	**-**	**255,620**	**2,200,772**
Non-financial assets				
Investment properties at fair value	**-**	**-**	**2,699,959**	**2,699,959**

Management considers that the carrying amounts of financial assets and financial liabilities, measured at amortised cost, recognised in the condensed consolidated interim financial statements approximate their fair values. The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities and investment properties:

	31 March 2020 (Un-audited)		**31 December 2019 (Audited)**	
Financial assets	**FVTPL**	**FVTOCI**	**FVTPL**	**FVTOCI**
Balance as at 1 January	**31,273**	**224,347**	36,814	231,658
Fair value movement	**-**	**(1,194)**	(5,541)	(7,311)
Addition	**17,667**	**-**	-	-
Closing balance	**48,940**	**223,153**	**31,273**	**224,347**

Non-financial assets	**31 March 2019 (Un-audited)**	**31 December 2019 (Audited)**
Balance at the beginning of the period	**2,699,958**	2,318,129
Additions	**48,597**	304,780
Transfer from held-for-sale	**-**	83,144
Disposal	**-**	(8,744)
Revaluation loss	**-**	2,650
Balance at the end of the period	**2,748,555**	**2,699,959**

17. Fair value measurement (continued)

The valuation techniques and the inputs used in determining the fair values of level 3 assets is consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2019.

18. Interim measurement

The nature of the Group's business is such that income and expense are incurred in a manner, which is not impacted by any form of seasonality. These condensed consolidated interim financial statements were prepared based upon the accrual concept, which requires income and expenses to be recorded as earned or incurred and not as received or paid throughout the period.

19. Dividends

During the annual general meeting of the shareholders held on 22 February 2020, a cash dividend of 5% and stock dividend of 5% of the paid up capital, each amounting to AED 146.7 million was approved for the year ended 31 December 2019 (2019: 8% dividend, amounting to AED 234.8 million for the year ended 31 December 2018).

20. Contingencies and commitments

	31 March 2019 Un-audited	**31 December 2019 Audited**
Letters of credit	**257,995**	139,331
Letters of guarantee	**2,069,538**	2,082,649
Capital commitments	**233,122**	282,363