



مصرف الشارقة الإسلامي
Sharjah Islamic Bank

ANNUAL REPORT 2018





بنك مصر في الشارقة الإسلامية
Sharjah Islamic Bank



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His Highness

Shaikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi





His Highness

Shaikh Dr. Sultan Bin Mohammed Al Qassimi

Member of the Federal Supreme Council and Ruler of Sharjah





His Highness

Shaikh Sultan Bin Mohammed Bin Sultan Al Qassimi

Crown Prince and Deputy Ruler of Sharjah



BOARD MEMBERS

H.E. ABDUL RAHMAN BIN MOHAMED BIN NASIR AL OWAIS

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MR. AHMED MOHAMED OBAID AL SHAMSI

Vice Chairman

MR. OTHMAN MOHAMED SHARIF ZAMAN

MR. ALI BIN SALIM BIN ALI AL MAZROU

MR. AHMED GHANIM AL - SUWAIDI

MR. MOHAMED N. A. AL FOUZAN

MR. EMAD Y. A. S. AL MONAYEA

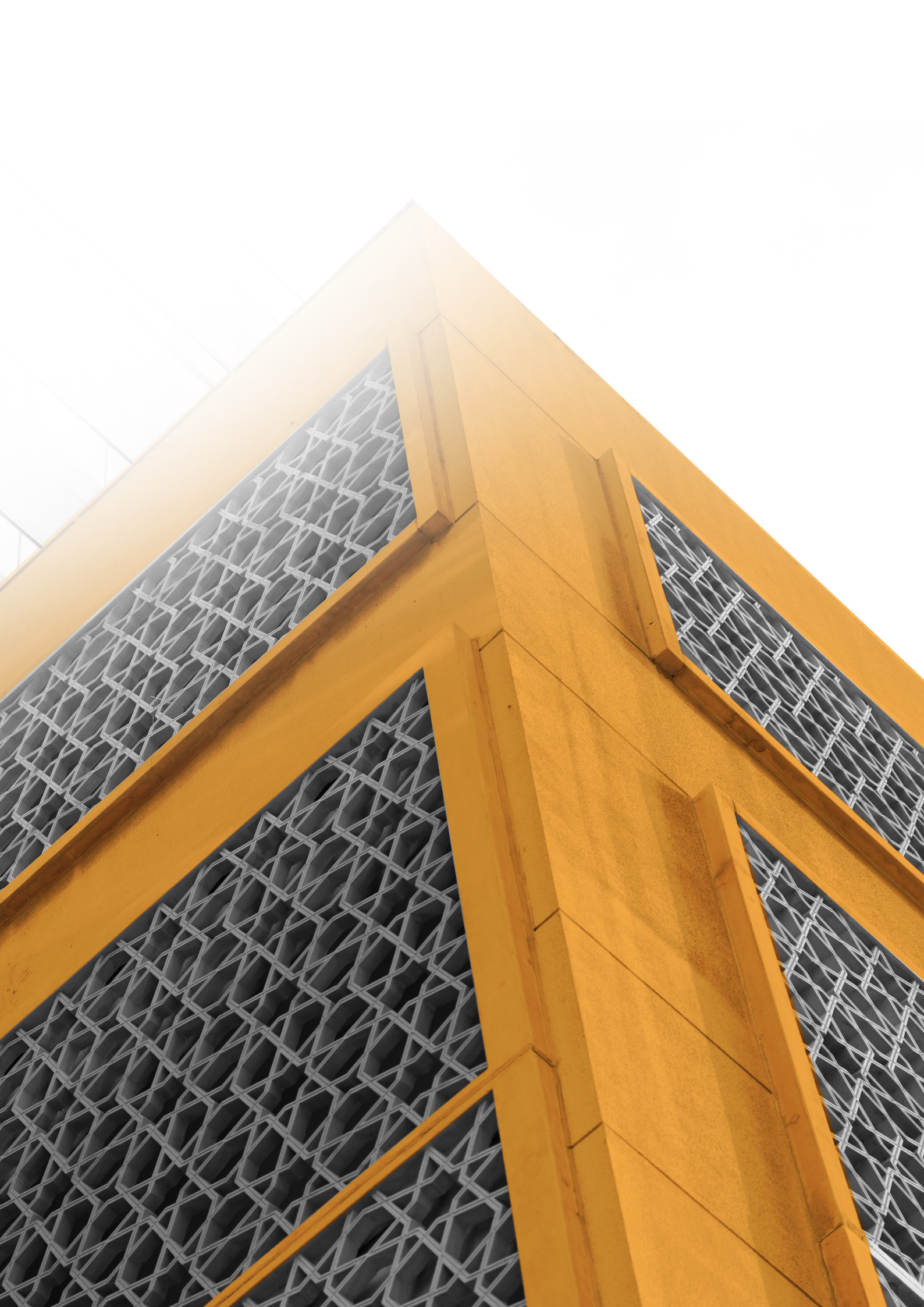




CONTENTS

CONTENTS

9	Chairman's Statement	44	Statement of Financial Position
13	Management Review	45	Statement of Profit and Loss
23	Financial Review	46	Statement of Comprehensive Income
28	Summary of key figures and performance ratios 2014 - 2018	47	Statement of Cash Flows
29	Fatwa and Sharia'a Supervisory Board Report	48	Statement of Changes in Equity
33	Audited Financial Statements	49	Notes to the Consolidated Financial Statements
34	Director's Report	105	Branch Network
36	Independent Auditors' Report		





CHAIRMAN'S
STATEMENT



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the Bank posted a net profit of AED 510.4 million by the end of 2018 compared to AED 477.7 million in 2017, rising by 7 per cent, resulting in an increase in earnings per share from AED 0.16 in 2017 to reach AED 0.17 in 2018





ABDUL RAHMAN BIN MOHAMED BIN NASIR AL OWAIS

Chairman of Board of Directors

Dear Shareholders,

As-Salamu Alaikum,

On behalf of SIB Board of Directors, I am pleased to present to you the annual report of Sharjah Islamic Bank and the most important financial results for 2018.

Sharjah Islamic Bank's financial results achieved during 2018 reflect its strong financial position and sound performance as it maintained its A3 credit rating accorded by international credit rating agencies. As far as the balance sheet is concerned, the Bank's total assets grew by 17 per cent to AED 44.7 billion, compared to AED 38.3 billion at the end of 2017.

In a bid to diversify deployment of funds, the total facilities granted to customers increased by 11.1 per cent to AED 24.1 billion by the end of 2018 as compared to AED 21.7 billion at the end of 2017. The Bank's investments also surged by 23.6 per cent to AED 6.2 billion as compared to AED 5 billion in the previous year.

Total customer deposits have witnessed an increase of 18.5 per cent to AED 26.4 billion as compared to AED 22.3 billion by the end of 2017. Thereby, the ratio of customer finances to stable funding sources stood at 73.5 per cent, well below the minimum required by the UAE Central Bank.

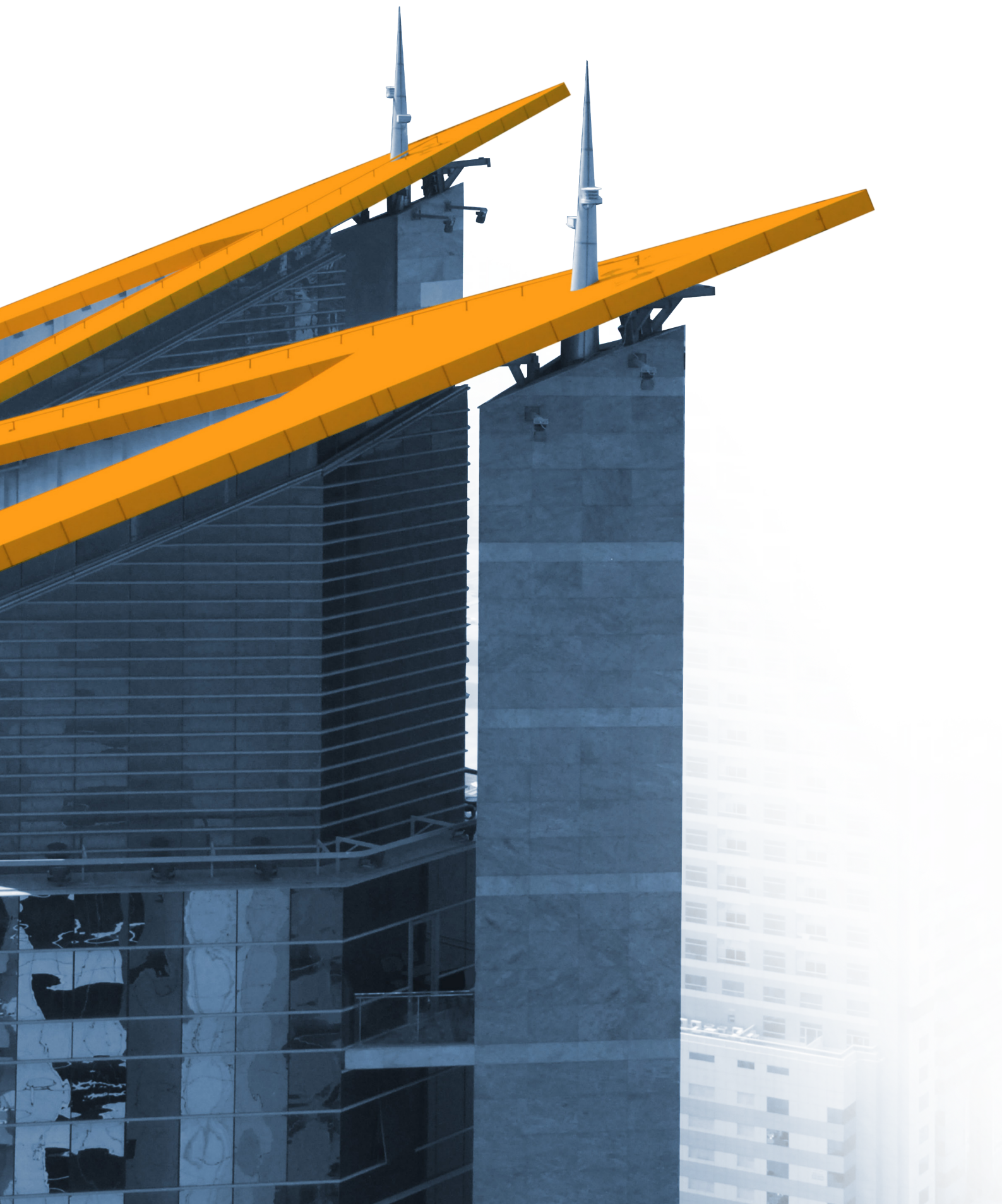
On the income statement side, total revenues amounted to AED 1.7 billion, up by 14.6 per cent from AED 1.49 billion in the previous year. Net operating profit reached AED 1.1 billion, up by 16.5 per cent from AED 933.8 million in the previous year.

Accordingly, the Bank posted a net profit of AED 510.4 million by the end of 2018 compared to AED 477.7 million in 2017, registering a 7 per cent increase, resulting in an rise of earnings per share from AED 0.16 in 2017 to AED 0.17 in 2018.

We seize this opportunity to express our gratitude to His Highness Dr. Sheikh Sultan Bin Mohammed Al Qasimi, Supreme Council Member and the Ruler of Sharjah, the facilitator of the economic progress in the emirate, for his continuous support and guidance. We hope to surpass our results continuously and live up to his expectations. We also thank His Highness Sheikh Sultan Bin Mohammed Bin Sultan Al Qasimi, Crown Prince and Deputy Ruler of Sharjah and Chairman of the Executive Council for his constant care and support.

Lastly, we extend our gratitude to all customers and shareholders, the board members, the Chairman and members of the Fatwa and Shari'a Supervisory Board, the executive management and all members of our staff for their sincere efforts in helping the Bank exceed expectations year after year.

Best wishes
As-Salamu Alaikum





MANAGEMENT
REVIEW



SIB'S MANAGEMENT AND STAFF

spared no effort to deliver on their promise and commitment to achieve strong performance and growth during the year. In 2018, SIB group achieved a Net Profit of AED 510.4 million compared to AED 477.7 million the year before. Total Income reached AED 1.70 billion; an increase of 14.6% compared to AED 1.49 billion last year. Net Operating Income reached AED 1.1 billion with an increase of 16.5% compared to 933.8 million in 2017.

Total Assets amounted to AED 44.7 billion compared to AED 38.3 billion in 2017, an increase of 17%. This increase comes as a result of the strong growth of both Financing Receivables of 11.1% and investments of 23.6%, to reach AED 24.1 billion and AED 6.2 billion, consecutively. Customer Deposits rose strongly during the year posting a growth of 18.5% and reaching AED 26.4 billion compared to AED 22.3 billion in 2017. SIB maintains a strong capital adequacy ratio of 17% according to Basel III, one of the highest ratios compared to other regional and international banks. The bank's strong capital adequacy, solid financial position

and profitability are reflected in the reconfirmation of its long-term credit rating at A3 (stable) by Moody's and BBB+ (stable) by Standard and Poor's and Fitch.

The bank won the following awards in 2018:

- UAE Emiratization Award, by the Ministry of Human Resources & Emiratization
- Human Resources Development Award Best Emiratization CEO Award in the banking and financial sector by the Emirates Institute of Banking and Financial Studies.

Previously, SIB was the proud recipient of "Dubai Human Development Award" organized by the Department of Economic Development, Government of Dubai, "Best Islamic Bank in the UAE", "Best Islamic Banking CEO", "Best Islamic Banking CSR", "Mohammed bin Rashid Al Maktoum Business Award", Dubai Chamber of



achieved a Net Profit of AED 510.4 million compared to AED 477.7 million the year before.

Commerce, Financial Services category, Dubai, "Best IVR Process", Insights Middle East Call Centre Awards, Dubai, and "Most Improved Online Experience", Ethos Integrated Solutions, Customer Experience Benchmarking Index award, Dubai.



RETAIL BANKING



A well-defined strategy that primarily revolves around the customer has been the driving force behind the growth of Sharjah Islamic Bank’s Retail Banking division on all fronts.

The growth is clearly evidenced through the year-on-year total revenue growth as well as the increasing contribution of Retail Banking to the bank’s revenue in the past few years. This achievement wouldn’t have been accomplished without the clear Retail Banking Strategy that revolved around the following pillars:



Innovative Products

A series of innovative product initiatives has seen the light during the past year, with prime focus on the Smiles Credit Card, Personal Finance and Real Estate Finance. Three key sub-products have been launched on the Smiles Credit Card:

- Balance Transfer, where customers can transfer other banks’ card balance to their Smiles Card with lower cost
- 0% Easy Payment Plan, which enables Smiles Card holders to spread any purchase of AED 1,000 and above over 12 months with zero profit rate
- Easy Cash, which allows customers to get instant cash advance on their card and pay over a period of 3 to 24 months at very low cost.

The above initiatives have had a considerable stimulus effect on the monthly card acquisition as well as the outstanding balance.

The Personal Finance business continued to be the driving force of Retail Banking business and it achieved double-digit growth during the past year. Personal Finance will remain one of Retail’s core products.

The “Tayseer – Salary Advance”, a sub-product of Personal Finance, was revamped and relaunched with added convenience, this led to a three-fold growth in the number of applications in three months’ time.

On the other hand, Retail Real Estate Finance business has also seen a leap in monthly bookings, primarily attributed to the non-residential finance, in spite of market slowdown. The introduction of Brokers’ partnership program and Ijarah finance top-up (additional finance) has also supported the acceleration in acquisition.

Innovative Communication

Various marketing campaigns for various products were launched during the year; innovation was a common factor amongst all. With increased focus on digital communication and outdoor, the campaigns have supported the products acquisition and maximized Sharjah Islamic Bank’s brand equity in the United Arab Emirates. Further investment in communication will be made in the coming years, which aims at maximizing the brand awareness and achieving business goals.

Enhanced Distribution

The inauguration of new branches and installation of new Automated Teller Machines (ATMs), have immensely enhanced the bank’s distribution network and its reach to specific target markets.

Three new branches in three key locations have seen the light during 2018, and more branches will be revealed in the coming years. In Al Ain near Hazza Bin Zayed Stadium, the city has hosted its second branch which is expected to increase market penetration.

Sahara Mall branch in Sharjah, the busiest shopping hub in the Emirate of Sharjah with plenty of well-known retail brands, is expected to attract a substantial stake of individuals with high disposable income.

The flagship branch in Mall of the Emirates will also strengthen the presence of SIB in one of the busiest shopping spots in the UAE.

The near future will unfold new branches at key locations; it will also witness the revamp of existing branches with a new look and feel.

The ATM network has also been increased by 13 new units located at busy spots.

A few years ago, SIB was the first UAE-based bank to launch special ATM’s for “People with Determination”. SIB continued to enhance that service with two new special ATMs – in Sharjah and Dubai – that were installed last year; another step that underlines SIB’s commitment towards all segments of the society.

Customer Experience

Customer experience was – and will remain the focus of every effort made in our Retail Banking, from launching innovative products and innovative communication to adding new branches and ATMs as well as leveraging on alternative delivery channels. In addition, considerable enhancements have been carried out on alternative delivery channels such as Online and Mobile Banking. These enhancements are aimed at adding more convenience for our customers and enhance their experience. The bank has a clear vision and ambitious plans towards “Digital Banking”, where innovation is the base of our Digital vision.

Strategic Partnerships:

Following the success of the business partnership between Sharjah Police and Sharjah Islamic Bank that led to conceiving and launching “Al Saada Pack” and “Al Saada Prepaid Card”, two more partnership initiatives were added in 2018:

- Massarrah Pack with Massarrah Prepaid Card, customized for the staff of Sharjah Directorate of Residency and Foreigners Affairs.
- Dubai Police Pack, tailored for the staff of Dubai Police under their existing Esaad program.

A set of compelling and tangible benefits including attractive profit rates on finances, free Smiles points and no minimum balance on accounts, are just a few of those benefits that were offered to their staff.

These partnerships are the latest addition to the existing strategic partnerships such as the ones with Sharjah Cooperative Society, American University, Air Arabia and many more.

WEALTH MANAGEMENT



Wealth Management (WM) completed its 10th anniversary at the end of 2018. These years gave WM the opportunity to gain more experience and expertise in serving its customers and attending to their needs and preferences.

Wealth management continued to execute its customer-focused strategy and posted excellent results vis-à-vis increasing customer deposit portfolio and the overall contribution to the bank's bottom line. These results are largely attributed to our commitment to service excellence, determined focus on the developing needs of our customers and agility in managing the portfolio. These factors played a key role in helping us achieve our performance goals over the past year despite a challenging operating environment.

During 2018, Wealth Management continued to invest heavily in staff training programs to strengthen staff skills in customer service, product development process, procedures and policies. These programs have supported the advancement of our staff and reflected our commitment to providing high quality products and services that are properly and ethically structured and delivered.

Next year, we will be focusing on enhancing customer experience, developing new products, strengthening our businesses and gaining market share.

CORPORATE BANKING



Corporate Banking (CB) has dedicated units that provide tailor made innovative products and services to its diverse corporate client base covering mid and large Corporates, Government and government-related institutions. CB also includes a dedicated unit focused on the commercial real-estate business.

As far as financial and growth objectives are concerned, CB has achieved another successful year and at the same time managed to reduce non-performing assets. The division maintains a clear focus on customer service and experience enhancement, reduction of turn-around

time and adoption of the latest available technology to serve clients. We enhanced the anti-fraud system for cheques and added more features to our corporate internet banking platform. Our corporate customers are now able to apply and route their trade finance transactions on line and no longer need to pay a visit to any branch.



Wealth management continued to execute its customer-focused strategy and posted excellent results vis-à-vis increasing customer deposit portfolio and the overall contribution to the bank's bottom line

Mid and Large Corporates

The CB team has not only managed to maintain a healthy portfolio but also bring in new accounts and customers who enjoy good market reputation and sound credit history. The team successfully executed many large tailor-made financing deals and trade finance transactions that covered various sectors such as manufacturing and infrastructure project finance.

Government Business

Our dedicated government team works closely with government departments and related entities attending to their banking needs and suggesting new products and services. In 2018, the team has successfully provided host-to-host integrated advanced technological system to Sharjah Finance Department (SFD) to facilitate funds transfer service through their own system. This helps SFD make payments swiftly and maintain full records. Other initiatives and services provided to SFD include:

- Positive Cheque Pay validation service is the first business to business (B2B) online integration established between Sharjah Finance Department (SFD) and SIB. This feature ensures an additional layer of security where only those cheques registered with SIB are passed. Hence, reducing the chance of any

fraudulent transactions.

- Online Pension & Vendor Payments enabling SFD to initiate payments from its in-house system and process the same as straight through processing.
- Tahseel payment service will enable SFD clients to access all SIB's banking channels such as Internet Banking, Mobile Banking, IVR, ATM; etc. It will automate the payment collections and reduce the load on Tahseel counters.
- Corporate Cash Management: SIB is in the process of providing a full-fledged cash management solution to SFD, enabling them to perform cash flow analysis, debt management and cash forecast. SFD will also be able to initiate payments and direct debit instructions from this system.

We are proud to be the preferred banking partner for the Government of Sharjah and for having been chosen during 2018 and earlier years to finance all its major projects. We will certainly continue to exert our best efforts to maintain that preferred status, provide high quality service and introduce innovative solutions.

Commercial Real Estate Finance

The Commercial Real Estate Finance (CREF) team in Corporate Banking has, for the first time, successfully crossed AED 3 billion in real estate financing facilities.

Compared to 2017, CREF achieved close to 20% growth in its real estate finance business during 2018. This healthy growth despite tough market conditions is a true witness to the team's commitment and efforts to grow the business and provide all necessary support to customers.

Going forward, CREF plans to establish dedicated teams for the emirates of Dubai and Abu Dhabi. CREF also booked and processed a first of its kind transaction in SIB linking under construction flats financed by the bank to their separate Escrow collection accounts with the Dubai Land Department (DLD).

Business Support Unit

The Business Support Unit (BSU) in Corporate Banking is dedicated to supporting CB's customers and Relationship Managers. BSU plays a pivotal role in coordinating with all internal support departments within SIB to make sure our corporate customers receive excellent and quick service.

INVESTMENT BANKING



Investment Banking (IB) division plays a key role in executing SIB's overall investment and asset diversification strategy and is a key contributor to the bank's total income. IB is responsible for a broad spectrum of activities including financial advisory, debt/equity capital markets (i.e. structured finance/syndications, Sukuk and equity trading). IB also manages SIB's direct investment activities which constitutes real estate investments, equity participations and joint ventures, investment in mutual funds and private equity instruments.

In 2018, Investment Banking continued to cherry pick investment opportunities in Sukuk and syndicated facilities deploying capital to maximize returns against investments. IB played the role of Joint Lead Manager and Book runner (main underwriter) for the Government of Sharjah's 10-year USD 1 billion Sukuk priced at 4.226%, Dubai Islamic Bank's 5-year USD 1 billion Sukuk priced at 3.60%, Damac Properties' 5-year USD 400 million Sukuk priced at 6.625%, Noor Bank's 5-year USD 500 million Sukuk priced at 4.471% and Abu Dhabi Islamic Bank's Additional Tier-1 USD 750 million Sukuk priced at 7.125%. During the year, IB acted as a Joint Lead Underwriter in a privately placed Sukuk of Kingdom of Bahrain that raised USD 500 million. On the syndicated facilities front, IB was a Mandated Lead Arranger for financial institutions transactions for Ajman Bank, Vakif Katilim Bank and Al Baraka Turk Bank.

Under the guidance of SIB's top leadership, IB was instrumental in raising USD 500 million 5-year Sukuk for SIB. The new Sukuk were raised in international capital markets and priced at 4.231%. This was done in challenging market conditions with rising benchmark rates and the issuance of sovereign bonds by the likes of Saudi Arabia, Egypt and Qatar plus a wait-and-see approach by investors.

IB remains mandated on a number of potential Sukuk and syndicated finance facilities which will be completed at opportune times.

Treasury

Treasury manages the bank's day to day liquidity position by arranging funds during shortfall and utilizing surplus funds. It undertakes the management of liquidity risk, profit rate risk and foreign exchange risk in line with the strategic directives of the Asset and liability Management Committee (ALCO). Treasury acts within the ambit of Islamic Sharia principles and under the guidelines of SIB's ALCO policy & contingent liquidity policy.



SIB's Treasury maintains strong working relationships with other Islamic and conventional financial institutions in the GCC region

SIB's Treasury maintains strong working relationships with other Islamic and conventional financial institutions in the GCC region. It is also in the process of establishing new relationships with institutions in South Asia. Thanks to the considerable and long standing of SIB, Treasury benefits from the most preferred status among other banks which is duly reflected in the substantial Money Market limits available to the bank. Such position enables Treasury to meet demands or exigencies on the bank's liquidity requirements and any potential asset-liability maturity mismatch.

SIB's Treasury offers many sharia compliant Islamic products to the bank's customers, catering to their banking and investment needs. Treasury also witnessed good progress in executing specialized products such as profit rate swaps and Sukuk leveraged financing. It also entered into collateralized Murabaha transactions as an alternate long-term source of funds for the bank.

In addition, Treasury executed FX swap transactions towards liquidity management,

paving the way for SIB to attract cross border deposits.

SIB's Treasury intends to go for a full-fledged front office system to improve the operational efficiency of the daily work flow and to accommodate new products. We also plan to launch an on-line FX product service to SIB's valued clients.

Financial Institutions

Financial Institutions Department (FID) plays an integral role in the smooth operations of the bank ensuring efficient management of its relationships with other local and international financial institutions.

FID engages with other financial institutions in providing superior Cash Management and Trade services including Documentary Credits, Guarantees, Bills for Collection and other related services.

Under the direction of the Asset and Liability Management Committee (ALCO) and in liaison with various stakeholders in the bank, FID has been able to bring onboard new relationships during the year as part of its ongoing relationship building endeavor.

The year that lapsed has seen the bank consider expanding its relationships in the South East Asian region to explore new markets and enhance its reach. In order to enhance its competitiveness, the department has also initiated discussion with a number of counterparts for speed remittance propositions in select strategic currencies. This is expected to be realized in H1, 2019.

INFORMATION TECHNOLOGY (ITD)



Information Technology Division continues to be the back bone of SIB ensuring all banking systems are functioning well and driving business value. ITD plays an instrumental role in delivering key projects and initiatives that bring SIB to the forefront of technology adoption and competitive differentiation. SIB's technology landscape is world-class and is very agile in delivering business, customer facing and regulatory initiatives.

During 2018, ITD successfully implemented a number of new systems and projects which are already being noticed in the marketplace. These systems and projects provide competitive advantage, enhance customer experience, improve banking efficiency and further improve our risk and compliance position.

SIB has the capabilities to deliver automation and efficiency improvements for corporate and government customers. For example, we have the ability to integrate directly with corporate ERP systems for Positive Cheque Pay validation, Online Pension and Vendor Payments. We are among very few banks globally that currently possess the technological capability to integrate with external entities in real time and in a fully automated manner.

SIB became the seventh bank in the UAE to launch Apple Pay. This follows the previous success story where we were the first Islamic bank in the region to launch Samsung Pay.

During the year, ITD was recognized and appreciated by the Central Bank (CB) to be the first bank in the UAE (among 50 banks) to initiate the new Immediate Payment Instructions (IPI) transaction which is a new instantaneous funds transfer service introduced by the CBUAE.

Digital transformation is the need of the hour in order to derive benefits of operational efficiencies and increase the ability to do more with less. In this regard, SIB will be among the first banks in the region to introduce Robotic Process Automation (RPA) technology. RPA is aimed at automating business processes that are labor intensive and prone to manual error; thereby increasing operational efficiency and reducing turn-around time. This is planned to go live in Dec. 2018.



The first bank in the UAE (among 50 banks) to initiate the new Immediate Payment Instructions (IPI) transaction which is a new instantaneous funds transfer service introduced by the CBUAE

Business process management solution (BPMS) aimed at workflow automation is also a key pillar in our digitization journey. SIB has introduced Ultimus BPMS system to automate key business processes including Trade Finance Import LC Approval, EMI Postponement, Customer Care Unit Process, Retail Finance Approval Process and Sharia Audit Process. This capability is fully available within SIB.

SIB has successfully implemented a new automated cheque clearing (ICCS) system replacing the existing system. The new system facilitates shorter clearing and settlement cycles through several validations with enhanced security features.

SIB also launched a state of the art secured mobile stock trading platform with modern features such as real-time market

feeds, Online Market Watch, News Alert, customizable dashboard, online Buy/Sell option.

On the Enterprise risk and compliance front, ITD has been instrumental in ensuring compliance with required local and international regulations. A new Moody's system for IFRS9 was implemented while Basel II system was successfully upgraded. The implementation of Basel III and liquidity related reporting is expected to go live by Q2, 2019. SIB is also fully compliant with the new VAT regulation.

IT infrastructure has also undergone a transformation on many fronts in order to keep up with the latest technology trends and support SIB's growth. The bank's entire network infrastructure has undergone a total revamp. In addition, the bandwidth between SIB's Head Office and branches has been upgraded successfully with in-built redundancy and fail-safe features. Our SWIFT infrastructure is also fully upgraded to the latest infrastructure and Global Payment Initiative (GPI) ready.

IT Security – Risk Management

Consistent with its strategy to protect customer information and implement best security practices in the banking sector, SIB has implemented the Information Security Management System based on ISO 27001 standard and has been awarded the ISO 27001 Certification. ISO 27001 Certificate has been issued by the accredited ISO Certification body viz. "Lloyd's Register"; that has assessed the implementation of SIB's Information Security Management System in accordance with the set standard. The accreditation confirms SIB's strong security practices related to customers, regulators, partners and other stakeholders. It also asserts that SIB is in line with the best practices for protecting critical business information and high staff awareness. This standard has also provided a strong foundation for complying with the requirements of the Central Bank's mandated National Electronic Security Authority (NESA) and Information Assurance (IA) Standard.

HUMAN RESOURCES



The Human Resources (HR) team is driven by the goal of making and keeping the bank as the “Employer of Choice”. The HR team takes relentless efforts to attract and engage promising associates in general and talented UAE Nationals in particular. To drive engagement and best performance, HR focuses on providing an environment that sparks creativity and camaraderie and ensures a supportive and performance-driven approach. In the bank’s 7th Employee Satisfaction Survey, our associates highlighted SIB’s “value-oriented” and “development-oriented” culture amongst the top strengths and reasons for their job satisfaction. As always, our efforts were recognized and we were awarded the Human Resources Development Award and the Best Emiratization CEO Award in the banking and financial sector by the Emirates Institute of Banking and Financial Studies. The jewel in the crown was the prestigious UAE Emiratization Award which is awarded by the Ministry of Human Resources & Emiratization. These recognitions stand testimony to our commitment towards building a successful organization by adopting best practices and embracing a mindset of continuous improvement.

During the year, suggestions received from our Employee Satisfaction Survey were converted into result-oriented action plans and added further value to our associates. Several projects have been implemented and many more are in the pipeline. This will help us improve our employee satisfaction ratings further and also influence other key indicators like Turnover, Grievances and Competency growth. The above examples clearly validate our endeavor to set even more challenging goals for ourselves year after year. By supporting each associate to become better versions of themselves, we are supporting our leaders to usher in impressive and sustainable financial results.

ORGANIZATIONAL EXCELLENCE (OE)



Organizational Excellence focuses primarily on service excellence, digital transformation, innovation, community excellence and continuous improvement. OE was established to ensure that all of Sharjah Islamic Bank’s core functions, products, services and processes are in line with international best practices.

In addition, OE is concerned with applying innovative methods and international excellence standards such as lean management and customer experience programs so as to ascertain the bank’s motto of being “more than a bank” and contribute to its recognition through the winning of local, Arabic and regional awards. Our first priority is to meet our customer business needs and exceed their expectations and those of all stakeholders.

In 2018, SIB launched an exceptional strategy that links all sponsorships, programs, services and products to the UAE National Agenda. This was done to enable the Bank to contribute to achieving the required numbers and ratios at all levels. The move resulted in better coordinated and harmonized programs, press releases and media coverage that are in line with the vision of the UAE’s leadership.

As a result of the bank’s continuous improvement approach and work done by the “Digital Transformation and Innovation Team”, SIB was honored by the Government of Dubai’s Department of Economic Development (DED) for being the most developed entity in the Dubai Service Excellence Program scoring 97 per cent. The team also implemented 67 projects and initiatives that included centralization of Business Account Opening, Fast Track Account Opening and VAT (Contracts and Forms).

As usual, the Bank participated in many community activities and initiated a community outreach program in order to enhance communication with the local community in general and academia in particular. This is in line with the vision of His Highness Sheikh Dr. Sultan bin Muhammad Al-Qasimi, Member of the Federal Supreme Council and Ruler of Sharjah. The Bank participated in the reception ceremony for new students at the University of Sharjah, Qasimia University, and at the annual forum



The jewel in the crown was the prestigious UAE Emiratization Award which is awarded by the Ministry of Human Resources & Emiratization

of the Academy of Police Sciences in Sharjah. These activities also help promote the bank’s products and services designed specifically for students, and enhance its positive image in general. Participation in such events has left a positive impact as evident in the request from other academic institutions for new partnerships and activities. One of these institutions is the Gulf Medical University in Ajman, where the first meeting was a prelude to a long-term partnership.

SIB implemented a comprehensive social impact methodology which goes beyond the traditional financial sponsorship in line with the National Agenda to make a real community impact. This helped raise the awareness of cooperating entities and resulted in programs that serve the social, cultural and economic goals set by the UAE’s government. Accordingly, in 2018, the Bank announced its partnership with the Emirates Economic Planning Forum, the Sharjah Entrepreneurship Festival, the Child Safety Campaign, the Government Communication Forum, and the Sharjah Institute for Heritage and the Sharjah Scientific Research Award in Islamic Economy. At the same time, the Bank continues to keep its partnership with the Pink Convoy, the Red Crescent Clinics, the Department of Local Affairs and Villages and the General Directorate of Sharjah Police. SIB also kept holding its annual Ramadan activities and Iftar tents.

On the other hand, SIB’s social media followers increased to more than 60 per cent during 2018. Internally, the Bank held several events for its employees such as the “Suhur” event during the holy month of Ramadan.

In 2019, the Organizational Excellence Team will continue to set challenging goals within the Bank’s vision, mission and values, and will spare no effort in leading and promoting a culture of excellence that results in a positive impact on the bank, the community and the country as a whole.

FUTURE OUTLOOK



The UAE's GDP is expected to grow by 2.9 per cent in 2018 and the economy is set to improve further in 2019, according to the International Monetary Fund (IMF). Moreover, oil production and government spending are set to rise and overall growth is projected to strengthen to 3.7 per cent in 2019.

As per the Central Bank of the UAE, the banking industry continued to enjoy strong profitability in 2018 as total assets of UAE-operating banks increased by 8% year on year reaching more than AED 2.84 trillion.

As for Sharjah, the local economy remains strong and dynamic. According to Moody's, which assigns an A3 credit rating for the emirate, Sharjah's Gross Domestic Product is expected to grow by 2.7% and 2.9% in 2018 and 2019 respectively. This growth is supported by increased government revenue, capital spending, and higher commercial and tourism activities.

Being the largest Sharjah-based bank in terms of total assets and profitability, SIB is set to benefit from such positive economic environment. The bank continues to expand and its total number of branches reached 34 compared to 31 a year earlier.

We also intend to continue strengthening our strategic partnerships and efforts to increase market share.

SIB remains committed to its mission, vision and values. We will continue to focus on our customers providing them with high quality products and services. While pursuing our strategy of sustainable financial growth and strong profitability, we remain committed to creating value for all our stakeholders in a socially responsible manner. We will continue to empower our staff and deploy best in class technologies that enable innovation and efficiency in all what we do.



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SUBSIDIARIES



Sharjah Islamic Bank has three fully-owned subsidiaries:

- Sharjah National Hotels Corporation (SNHC)
- Sharjah Islamic Financial Services (SIFS)
- ASAS Real Estate

Sharjah National Hotels Corporation (SNHC)

Sharjah National Hotels owns and operates three mid to luxury range resorts in the emirate of Sharjah. Hotel Holiday International and Marbella Resort are ideally located on the shore of the Khalid Lagoon in Sharjah. Oceanic Khorfakkan Resort and Spa is located on the East Coast of Sharjah nestled between the Hajjar Mountains and the Gulf of Oman, the resort occupies a beautiful beachfront location with far reaching views.

The general performance of hotels in the region has been reported and shows reductions in turnover in the region of 15% compared to 2017, this is due to a dramatic increase in hotel rooms in Dubai which has impacted negatively on the general market across the region; inventory in Dubai has increased from 81,000 in 2015 to 111,000 in 2018.

Additionally, key market segments from the Frequent Individual Traveler and the Online Travel Agencies (booking.com etc.) have seen reductions by 20% compared to the previous year according to STR and Booking.com. In a very difficult market, Sharjah National Hotels has seen a reduction in turnover of 5% compared to 2017; this is a remarkable achievement considering the current market.

Sharjah National Hotels has focused

on controlling costs and improving the quality of both the service provided and the facilities offered. Through centralized purchasing and better buying, the group has achieved a 5% saving which is equal to AED 1.1m compared to 2017. Additionally, there have been strong improvements to guest quality feedback scores particularly in Q3 and Q4 with the Oceanic Khorfakkan Resort and Spa equaling its previous best achievements while hotel Holiday International and Marbella both achieving their highest ever scores on record.

Refurbishment and compliance work continued through the year in Hotel Holiday International and Marbella Resort and completion is expected in 2019.

Once completed, the refurbishment will allow a much more modern appearance and be more aligned to the needs of the modern traveler. We intend to complete a branding review and relaunch back to the market. These enhancements and investments will allow SNHC to be more competitive and should protect rates and occupancies.

The expectation for 2019 is optimistic, as a Hotel Group, we are changing our structure to be more competitive in the new changing market and to focus on growing our sales team in order to capture more business. Sharjah National Hotels is committed to further improve the facilities it offers, the quality of service it provides and grow its revenue and profit contribution.

Sharjah Islamic Financial Services

Sharjah Islamic Financial Services (SIFS) offers Sharia-compliant stock brokerage services in the stock markets of the UAE.

During 2018, SIFS recorded a substantial growth in margin trading Murabaha and expected to close the year with profits that

are highest in the last five years.

SIFS successfully launched a mobile application for stock trading that enables customers to trade from anywhere in the world. The launch of the mobile app is one of many steps the company is taking to implement the latest technology and offer best services. In recognition of its continuous efforts towards achieving high quality standards, SIFS has been awarded a score of more than 90% on quality ranking by the Dubai Financial Market.

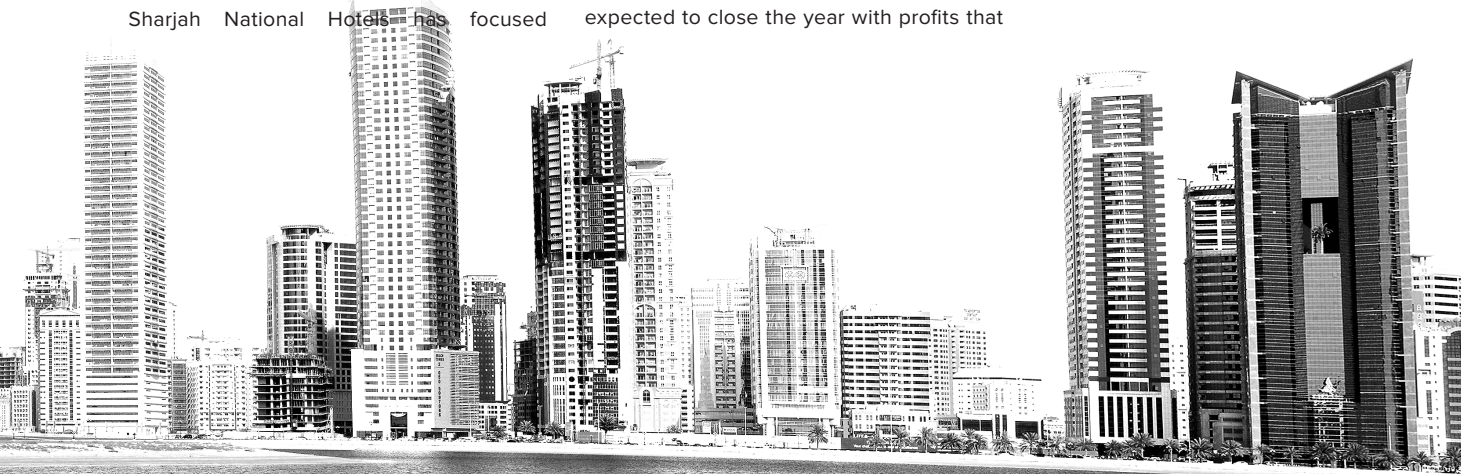
The company is poised to launch a new website that will not only meet customer requirements but also serve as an effective marketing tool.

ASAS Real Estate

ASAS, the property arm of Sharjah Islamic Bank, is a leading real-estate company in Sharjah. The company is engaged in many sectors that fall under real estate business. ASAS invests in real estate (RE) projects, carries out RE management & development, RE marketing, leasing, property valuation and brokerage services. ASAS also provides these services to other parties.

The company has offices in Sharjah, Dubai and Abu Dhabi and has been expanding its operations to the rest of the emirates.

During the year, ASAS has increased its real estate portfolio, projects under construction and the number of properties managed on behalf of its customers.





بنك الشanghai الإسلامي
Shanghai Islamic Bank



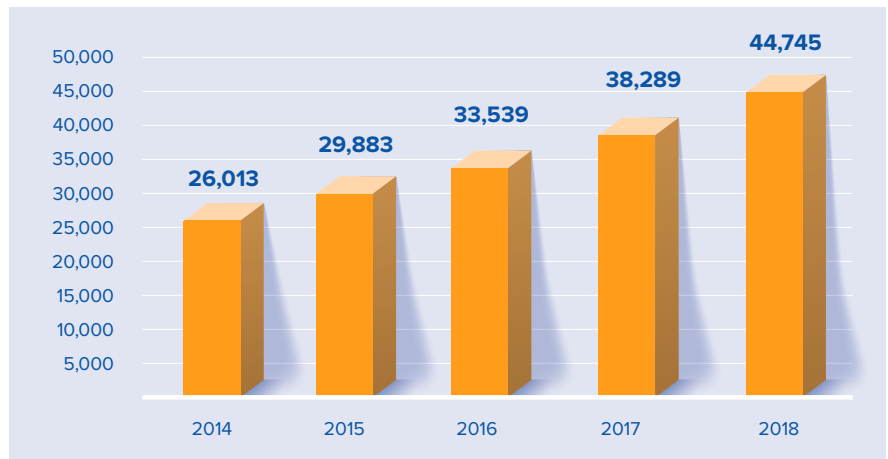
FINANCIAL
 **REVIEW**

SHARJAH ISLAMIC BANK PJSC ACHIEVED A NET PROFIT OF AED 510.4 MILLION FOR THE YEAR ENDED 31 DECEMBER 2018, WHEREAS TOTAL ASSETS REACHED AED 44.7 BILLION, AN INCREASE OF 6.8% AND 16.9% RESPECTIVELY.

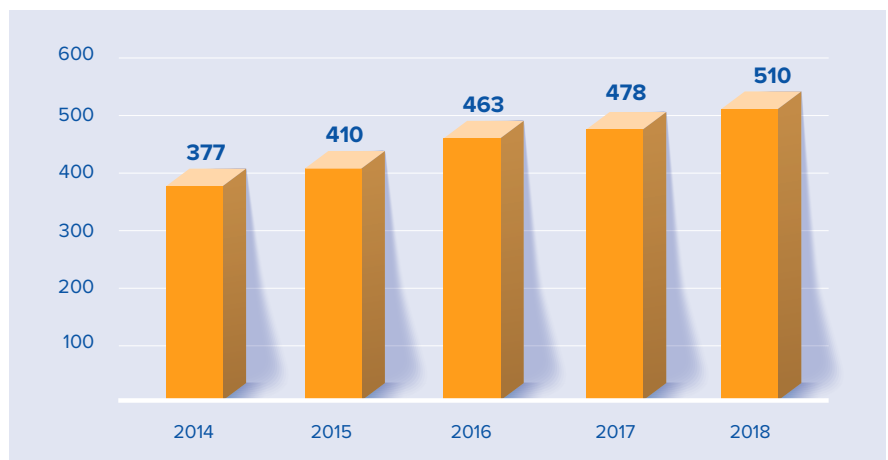
During 2018 Sharjah Islamic Bank (SIB) continued its achievements and growth, successfully overcoming all the challenges affecting the regional economy. SIB achieved its performance through its continual focus over core banking operations resulting in profit of AED 510.4 million in 2018 compared to AED 477.7 million last year; a 6.8% increase. Total assets reached AED 44.7 billion at the end of 2018 compared to AED 38.3 billion at the end of 2017.



TOTAL ASSETS



NET PROFIT



KEY HIGHLIGHTS:



Net profit up by **6.8%** reaching a mark of **AED 510.4 million** as compared to **AED 477.7 million** in **2017**

Provision expenses – net of recoveries improved significantly, lower from **AED 148.8 million** in **2017** to **AED 36.8 million** in **2018**

Customer deposits of the Group increased remarkably to reach **AED 26.4 billion** as at **31 December 2018** from **AED 22.3 billion** as at **31 December 2017**, a significant increase of **18.5%**

NPL ratio now stands at **5.9%**, and coverage ratio at **79%** as at **31 December 2018**

Capital adequacy ratio stands at **16.9%** and Tier1 ratio stands at **15.8%** at **31 December 2018**

Advances to deposit ratio stands at **91.3%** as at **31 December 2018**

Earnings per share stands at **AED 0.17** for the year **2018**, as compared to **AED 0.16** for the year **2017**, an improvement of **6.8%**

Return on average assets for the year stands at **1.23%**

Return on average equity is computed to **9.36%** for the year **2018**



Cost to income ratio stands at **36.1%** as at **31 December 2018** as compared to **37.1%** as at **31 December 2017**



Investment securities increased by **23.6%** to reach **AED 6.2 billion** as compared to **AED 5.0 billion**



Liquid assets now contribute **21.6%** of the total assets, amounting to **AED 9.7 billion** as at **31 December 2018**



Total assets of the Group increased significantly by **16.9%** to reach **AED 44.7 billion** as at **31 December 2018** compared to **AED 38.3 billion** as at **31 December 2017**



Net operating income rose by **16.5%** reaching **AED 1,087.7 million** as compared to **AED 933.8 million** in **2017**

STATEMENT OF FINANCIAL POSITION:

SIB has been successfully pursuing a strategy of stable growth in both profitability and financial position which is reflected in the figures below:

Total assets of Sharjah Islamic Bank reached AED 44.7 billion at the end of the December 2018 compared to AED 38.2 billion at the end of December 2017.

The following are the main highlights that occurred on the statement of financial position:

Liquid assets:

Liquid assets reached AED 9.6 billion or 21.6% of the statement of financial position at the end of December 2018 compared to AED 7.0 billion or 18.4% at the end of December 2017.

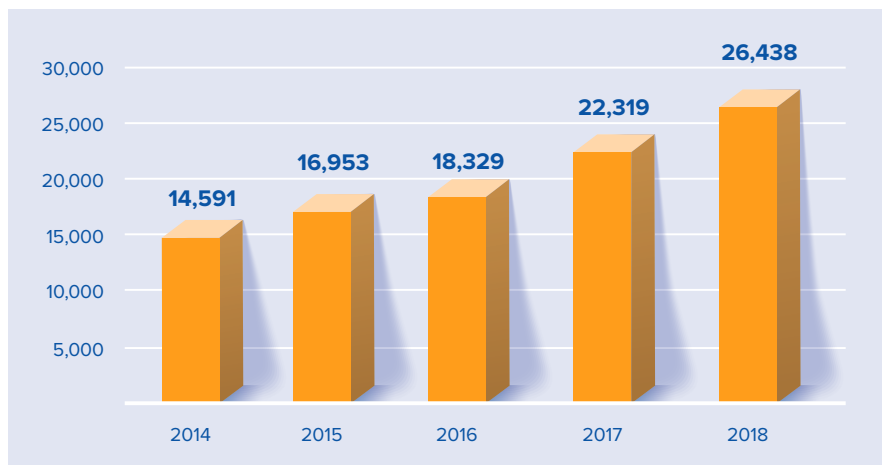
Customer financing:

Net Customer financing of the Group amounted to AED 24.1 billion as at 31 December 2018, an increase of 11.1% or AED 2.4 billion compared to the year ended 2017. Bank continued to improve its Customer financing book, equally across corporate and retail sectors, maintaining the concentration in all sectors of the industry. Customer financing to customer deposits stands at strong 91.3% and in line with management’s strategic objectives.

Investment securities:

Investment securities increased by 23.6% to reach AED 6.2 billion at the end of December 2018 compared to AED 5.0 billion at the end of December 2017, mostly on account of sovereign and other high rated sukuk investments.

CUSTOMER DEPOSITS



Customer deposits:

Sharjah Islamic Bank was successful in attracting more customer deposits during the year 2018 as the total customer deposits reached AED 26.4 billion by the end December 2018, growing significantly by AED 4.1 billion or 18.5% compared to AED 22.3 billion as of December 2017, despite tight liquidity in the industry.

Due to banks:

Balance due to banks reached AED 6.5 billion as at 31 December 2018 with an increase of AED 2.4 billion or 60.7% compared to AED 4.0 billion at the end of 31 December 2017, in line with Group’s liquidity management.

Shareholders’ equity:

Sharjah Islamic Bank is strongly capitalized. Total shareholders’ equity reached AED 5.4 billion or 12.2% of total assets.

Asset quality:

NPL ratio of the Bank stands at 5.9% in 2018 as compared to 5.4% in 2017 owing to implementation of IFRS9 and stringent risk management policies.

Banks prudent approach to provisions and improvements in NPLs has resulted in significantly improved coverage ratio for the Bank. Coverage ratio now stands at the highest level of 79% as at 31 December 2018 as compared to 68% as at 31 December 2017.

INCOME STATEMENT:

Sharjah Islamic Bank posted a net profit of AED 510.4 million for the year ended 31 December 2018, compared to AED 477.7 million for the year ended 31 December 2017, an increase of 6.8%.

Net operating income reached AED 1,087.6 million for 2018 compared to AED 933.8 million for 2017, an increase of 16.5%.

Main highlights of the income statement are:

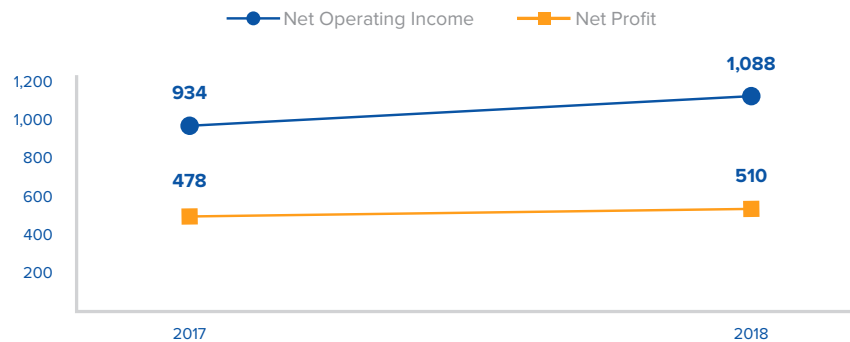
Income from Islamic financing reached AED 1.32 billion for the year ended 31 December 2018 as compared to AED 1.11 billion for the year ended 31 December 2017, an increase of AED 212.2 million or 19.1%.

Distributions to sukuk holders reached AED 183.5 million compared to AED 167.8 million for 2017; AED 15.7 million, higher by 9.4%.

Investment, fees, commission and other income reached AED 534.1 million by for the year ended 31 December 2018, compared to AED 510.7 million for the year ended 31 December 2017, increase of AED 23.3 million or 5.0%.

Income from subsidiary reached AED 28.2 million for the year ended 31 December 2018 compared to AED 30.6 million for the year ended 31 December 2017, decrease of AED 2.4 million or 7.7%

On the expenses side, general and administration expenses reached AED 614.2 million for the year ended 31 December 2018 compared to AED 550.7 million for the year ended 31 December 2017, an increase of AED 63.5 million or 12.0%.



Net operating income reached AED 1,087.6 million for 2018 compared to AED 933.8 million for 2017, an increase of 16.5%.

Provision-net of recoveries reached AED 36.8 million for the year ended 31 December 2018 compared to AED 148.8 million for the year ended 31 December 2017, decrease of AED 112.0 million or 75.3%.

Profits allocated and distributed to depositors reached AED 540.5 million

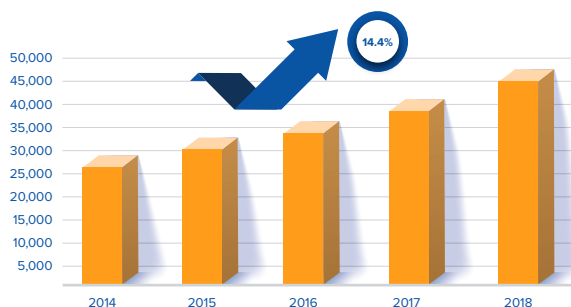
for the year ended 31 December 2018 compared to AED 307.3 million for the year ended 31 December 2017; an increase of 75.9%. These profit allocations represent the depositors' share of the Groups' net operating profits based on the profit sharing mechanism between shareholders and depositors as approved by SIB's Shari'a Board.

Return on average shareholders' equity (ROAE) reached 9.36% as at 31 December 2018 compared to 9.21% as at 31 December 2017, while return on average assets (ROAA) was 1.23% by the end of December 2018 compared to 1.33% by the end of December 2017.

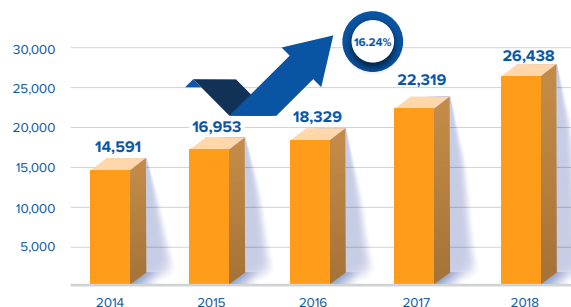
SUMMARY OF KEY FIGURES AND PERFORMANCE RATIOS

(Figures in AED Millions)	2014	2015	2016	2017	2018
Total Assets	26,013	29,883	33,539	38,288	44,746
Net Customer Receivables	14,475	16,349	17,091	21,707	24,124
Customer Deposits	14,591	16,953	26,438	22,318	26,438
Total Shareholders' Equity	4,588	4,704	4,856	5,519	5,446
Return on Average Assets	1.58%	1.47%	1.46%	1.33%	1.23%
Return on Average Equity	8.27%	8.82%	9.68%	9.21%	9.36%
Equity to Total Assets	17.64%	15.74%	14.48%	14.41%	12.01%
Leverage of Total Capital (Times)	4.67	5.35	5.91	5.94	7.31

TOTAL ASSETS, AED MILLIONS

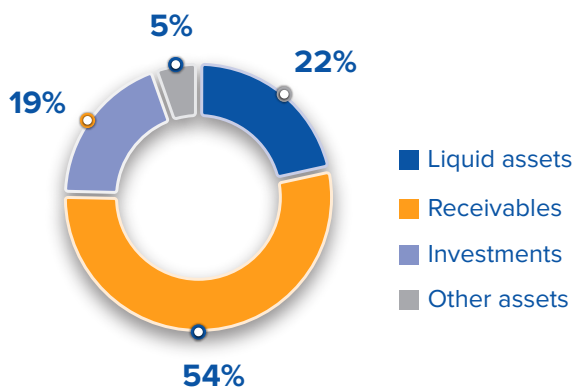


CUSTOMER DEPOSITS, AED MILLIONS

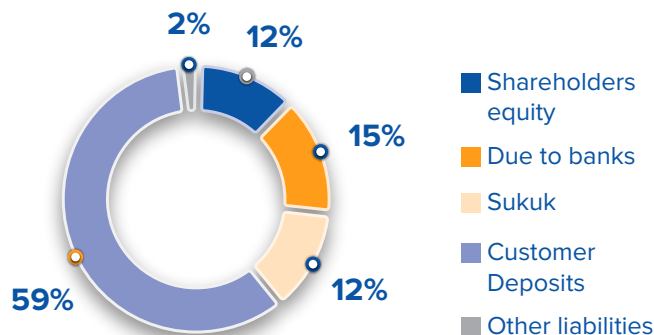


ASSETS AND LIABILITIES STRUCTURE

SIB Asset Structure



SIB Liabilities Structure





FATWA AND
SHARIA'A

IN THE NAME OF ALLAH, THE MOST GRACIOUS, THE MOST MERCIFUL

REPORT OF THE INTERNAL SHARIA'A CONTROL COMMITTEE OF SHARJAH ISLAMIC BANK FOR 2018

Pursuant to the Articles of Association (AoA) of Sharjah Islamic Bank (SIB), the Internal Sharia Control Committee (ISCC) being a totally independent body of the Bank, has been requested to prepare a comprehensive report on Bank's activities and transactions during the year, in order to ascertain Bank's adherence to its AoA, Islamic Sharia principles and the fatwas of the Committee.

FIRST: SUPERVISION, GUIDANCE AND FATWAS

The Committee has supervised all bank's transactions and gave its directions to bank's different departments to observe the Sharia'a principles and apply Committee's Fatwas and resolutions, where the ISCC Managing Director held several meetings with Bank's departments to reach the same end. Furthermore, the Committee has taken perusal through the Sharia'a Control and Audit reports executed during the period of the report and all queries and questions encountered during this period. The Committee has issued its resolutions regarding all questions and queries, where these resolutions have been circulated by the Sharia'a Control and Audit Division to the concerned divisions to work accordingly. The ISCC confirms that it is adhering to AAOFI Sharia Standards in all its Fatwas and resolutions with effect from 01/09/2018 as per the Resolution No. 12/02/2018 of the Higher Sharia Authority. The Committee thanks Bank's Divisions for its adherence to the mentioned Fatwas and resolutions, and confirms the cooperation of bank's management as it has enabled the Committee to access all documents required to achieve the entrusted task.

SECOND: DOCUMENTS AND MODES OF FINANCE AND INVESTMENT

The Committee has reviewed all new and existing modes of finance and investment and relevant documentations referred to them and approved the same considering the evolution of finance and investment products and its mechanisms in a way that is in line with the recent in Islamic Banking industry without prejudicing Sharia'a precepts underlying such modes, aiming, on one hand, at challenging business requirements, and enabling the bank to cope with the industry growth and to be in line with any development in Islamic Finance Industry, and, on the other hand, efficiently contributing in uplifting the Islamic banking industry and enabling SIB to be a competitor in Global Banking Markets.

THIRD: SIB'S BALANCE SHEET

Bank's management has prepared the Balance Sheet and other reports including Profit and Loss Statement for 2018 and the Committee has reviewed the same with relevant notes as well as accounting policies adopted for preparing the balance sheet. The Committee has also reviewed the criteria used to profit distribution between depositors and shareholders on the one hand, and amongst depositors themselves on the other hand. The Committee deems that those policies and criteria are in conformity with Islamic Sharia precepts, however, the Committee hereby emphasizes that information and data accuracy is the responsibility of Bank's management.

FOURTH: ZAKAT ACCOUNT FOR THE YEAR 2018

The Committee has reviewed the Zakat amount payable by SIB which is AED 58,545,384.21 and confirms that Zakat calculation is in consistence with Islamic Sharia principles and fatwas of the Committee. As for the Zakat amount payable by the SIB's shareholders, the Committee had prepared a letter addressed to them specifying the Zakat amount due per share.

FIFTH: TRAINING COURSES

The Committee recommends that bank's management arranges to conduct specialized training courses in Sharia'a products, mechanism and contracts, particularly customized courses for new products and for new staff, as well.

SIXTH: EVALUATION OF THE SIB'S RESULTS

First of All, the Committee thanks Almighty Allah, and then thanks the Board of Directors and executive management, for the growth and progress achieved by the bank and which can be attributed to the adherence to the principles of Islamic Sharia observed in all the Bank's activities, and the assurance given by the executive management on that commitment.

We pray to Almighty Allah to accept our deed and to reward us for it as promised by the Prophet, peace be upon Him.

May Allah bless all.

HIS EMINENCE DR. JASSIM AL SHAMSI

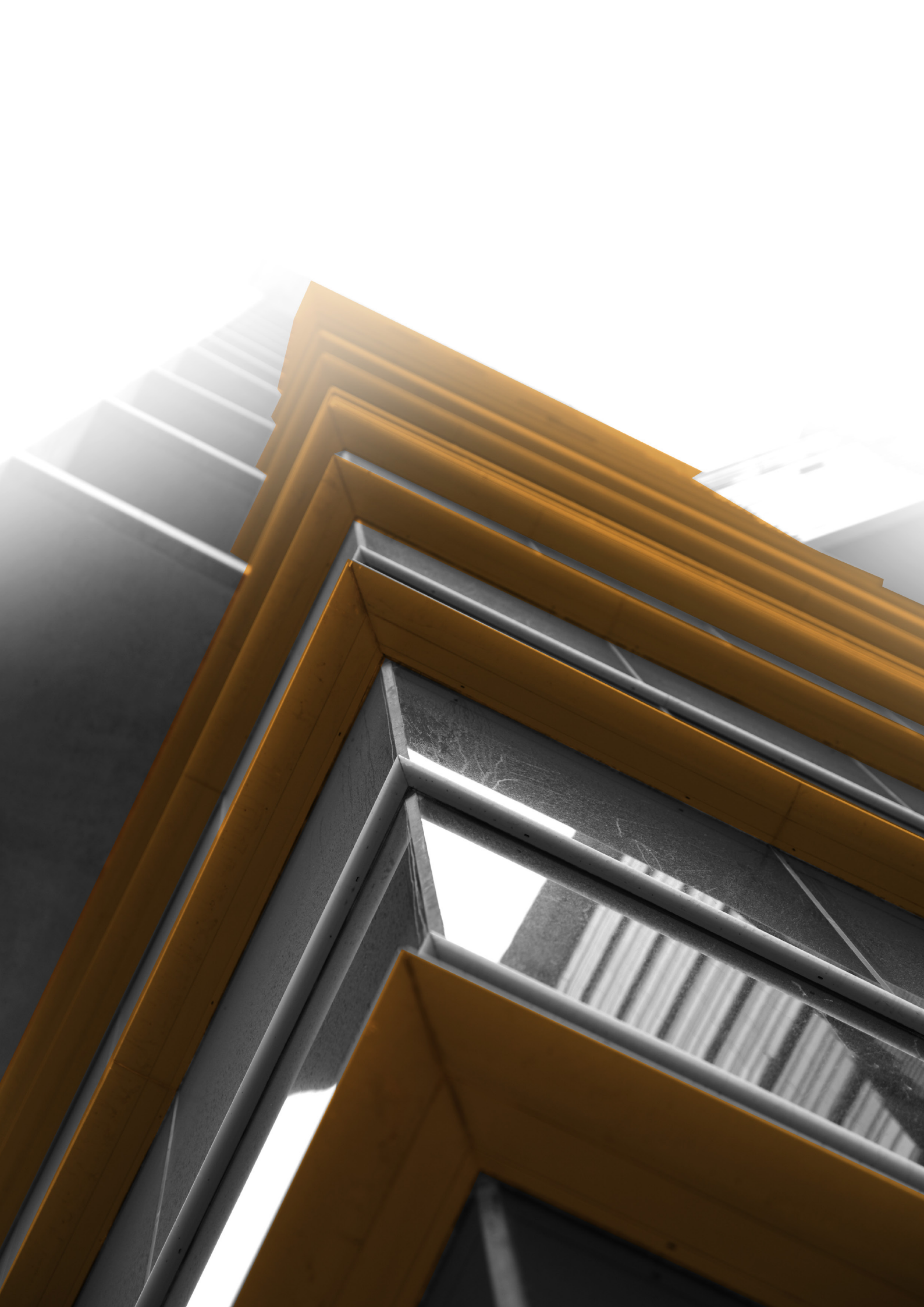
Head of Sharia'a Committee

HIS EMINENCE DR. IBRAHIM ALSHALL

Committee Member and Managing Director

HIS EMINENCE DR. IBRAHIM AL MANSOURI

Committee Member





AUDITED
FINANCIAL

 **STATEMENTS**



DIRECTORS'
REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK PJSC (“the Bank”) and its subsidiaries, together referred to as (“the Group”) for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

As at 31 December 2018, total assets of the Bank increased by AED 6.5 billion to reach AED 44.7 billion, an increase of 16.9%.

Investments in Islamic financing increased by 11.1% (AED 2.4 billion) to reach AED 24.1 billion and customer deposits increased by 18.5% (AED 4.1 billion) to reach AED 26.4 billion.

Net operating income for the Bank increased by 16.5%, to reach AED 1,087.7 million for 2018 as compared to AED 933.8 million in 2017.

Impairment provisions (collective and specific) – net of recoveries made in the year 2018 amounts to AED 36.8 million, a decrease of 75.3%.

Net profits of AED 510.4 million is recorded for year ended 31 December 2018 compared to AED 477.7 million for the corresponding prior year, an increase of 6.8%.

AUDITORS:-

PricewaterhouseCoopers (PWC) were appointed as auditors of the Group for 2018 at the Annual General Meeting held on 10 February 2018.

ABDUL RAHMAN MOHAMMED NASSER AL OWAIS

Chairman

20 January 2019



INDEPENDENT
AUDITORS'
REPORT

Independent auditor's report to the shareholders of Sharjah Islamic Bank and its subsidiaries

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sharjah Islamic Bank (the "Bank") and its subsidiaries (together "the Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2018;
- The consolidated statement of profit or loss for the year then ended;
- The consolidated statement of profit or loss and other comprehensive income for the year then ended;
- The consolidated statement of cash flows for the year then ended;
- The consolidated statement of changes in equity for the year then ended; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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.pwe.com/me

Douglas O'Mahony, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the shareholders of Sharjah Islamic Bank and its subsidiaries (continued)

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

KEY AUDIT MATTER

Measurement of Expected Credit Losses

IFRS 9 'Financial instruments' became effective from 1 January 2018 and replaced most of the guidance in LAS 39 – 'Financial instruments'. In particular, the incurred loss impairment model under LAS 39 has been replaced with the Expected Credit Losses model ("ECL"). The Group has previously adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments. The Group adopted the final phase of IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018. The adoption of the ECL model under IFRS 9 has resulted in an increase in the impairment provision by AED 295m which has been recognized as an adjustment to retained earnings at 1 January 2018. On the initial application of IFRS 9, the Directors have evaluated and disclosed the information required by IFRS 7 and IFRS 9.

The Group applies ECL on all the financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and financial guarantee contracts including financing commitments.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We performed the following audit procedure to assess the adequacy of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2018:

- We tested the completeness and accuracy of the data used in the calculation of ECL.
- For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria.
- We involved our internal specialist to assess the following areas:
- Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9.

Independent auditor's report to the shareholders of Sharjah Islamic Bank and its subsidiaries (continued)

Key audit matters (continued)

KEY AUDIT MATTER

The Group exercises significant judgments and makes a number of assumption in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.

For defaulted exposures, the Group exercises judgments to estimate the expected future cash flows related to individual exposures, including the value of collateral.

The Group's impairment policy under IFRS 9 is presented in Note 4a to the consolidated financial statements.

Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

- ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial instruments.
- Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.
- For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collaterals.
- For the stage 3 portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files.
- We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.

Independent auditor's report to the shareholders of Sharjah Islamic Bank and its subsidiaries (continued)

Key audit matters (continued)

KEY AUDIT MATTER

Fair valuation of Group's investment properties

The Group's investment properties are held at a fair value of AED 2,318m as at 31 December 2018 (Note 9).

The valuation of the Groups investment properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income or selling value for that particular property. Investment properties are initially recognized at cost and subsequently measured at fair value.

The valuations were carried out by professional third party valuation companies. The valuers were engaged by the Group, and performed their work in accordance with relevant appraisal and valuation standards.

In determining a property's valuation, the valuers take into account current market prices for similar properties in a similar location and condition. If prices for comparable properties are not available, the valuers make use of appropriate valuation techniques to arrive at the fair valuation.

This valuation of investment properties is considered to be a key audit matter due to the significant judgements and assumptions made in determining the fair values of investment properties.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We evaluated the competence, capabilities and objectivity of professional third party valuation firms (the "experts") engaged for valuing the investment properties.

We evaluated the appropriateness of the experts' work by considering the nature and content of the instructions provided to the experts by the Group. Where the experts' work involved valuation techniques which needed significant use of source data provided by the Group's management, the relevance, completeness and accuracy of that source data was evaluated.

The relevance and reasonableness of the expert's findings or conclusions for investment properties were considered by engaging our own in-house valuation experts to assess and evaluate the work performed and assumptions used by third party valuation firm.

Independent auditor's report to the shareholders of Sharjah Islamic Bank and its subsidiaries (continued)**Other information**

The Directors are responsible for the other information. The other information comprises of the Director's Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of the auditor's report, and Chairman's Report, Corporate Governance Report and Financial Highlights, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the Director's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read Chairman's Report, Corporate Governance Report and Financial Highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Directors and those charged with governance for the consolidated financial statements

Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statement

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent auditor's report to the shareholders of Sharjah Islamic Bank and its subsidiaries (continued)

Auditor's responsibilities for the audit of the consolidated financial statement (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair representation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report to the shareholders of Sharjah Islamic Bank and its subsidiaries (continued)**Report on legal other legal and regulatory requirements**

Further, as required by the UAE Federal Law NO. (2) of 2015, we report on that:

- (1). We have obtained all the information we have considered necessary for the purpose of our audit;
- (2). The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal law No. (2) of 2015;
- (3). The Group has maintained proper books of account;
- (4). The financial information included in the director's report is consistent with the books of account of the Group;
- (5). As disclosed in note 17 to the consolidated financial statements, the Group has not purchased or invested in any shares during the financial year ended 31 December 2018;
- (6). Note 31 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- (7). Note 32 to the consolidated financial statement disclosed the social contribution made during the year ended 31 December 2018.
- (8). Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal law No. (2) of 2015 or in respect of the Group, its Memorandum of and Articles of Association which would materially affect its activities of financial position as at 31 December 2018;

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers

29 January 2019

Jacques E. Fakhoury

Registered Auditor Number 379

Dubai, United Arab Emirates

STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018	2017
ASSETS			
Cash and balances with banks and financial institutions	5	2,440,868	3,103,111
Murabaha and wakalah with financial institutions	6	7,217,226	3,925,490
Investments in Islamic financing	7	24,123,760	21,707,375
Investment securities	8	6,220,452	5,034,137
Investment properties	9	2,318,129	2,167,763
Properties held-for-sale	10	658,460	568,078
Other assets	11	907,905	923,264
Property and equipment	12	858,687	859,301
TOTAL ASSETS		44,745,487	38,288,519
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Customers' deposits	13	26,438,275	22,318,523
Due to banks	14	6,548,781	4,076,241
Sukuk payable	15	5,499,603	5,501,743
Other liabilities	16	809,607	808,838
Zakat payable		61,589	63,894
TOTAL LIABILITIES		39,357,855	32,769,239
SHAREHOLDERS' EQUITY			
Share capital	17	2,934,855	2,934,855
Legal reserve	20	1,429,264	1,377,902
Statutory reserve	20	89,008	89,008
General impairment reserve	20	66,717	-
Fair value reserve	20	(87,537)	(39,488)
Retained earnings		955,325	1,157,003
TOTAL SHAREHOLDERS' EQUITY		5,387,632	5,519,280
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		44,745,487	38,288,519

These consolidated financial statements were authorised for issue in accordance with a resolution of Directors on 20 January 2019 and signed on its behalf by:

ABDUL RAHMAN MOHAMMED NASSER AL OWAIS
Chairman

MOHAMMED AHMED ABDULLAH
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 37 to 43.

STATEMENTS OF PROFIT AND LOSS

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

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018	2017
Income from investments in Islamic financing	21	1,323,184	1,111,007
Distributions to sukuk holders		(183,539)	(167,763)
Investment, fees, commission and other income - net	22	534,059	510,731
Income from subsidiaries		28,229	30,585
TOTAL OPERATING INCOME		1,701,933	1,484,560
General and administrative expenses	23	(614,246)	(550,745)
NET OPERATING INCOME		1,087,687	933,815
Provisions - net of recoveries	24	(36,769)	(148,817)
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		1,050,918	784,998
Distribution to depositors	25	(540,539)	(307,324)
PROFIT FOR THE YEAR (Attributable to the equity holders of the Bank)		510,379	477,674
Earnings per share (U.A.E. Dirham)	26	0.17	0.16

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 37 to 43.

STATEMENT OF COMPERHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
PROFIT FOR THE YEAR (Attributable to the equity holders of the Bank)	510,379	477,674
OTHER COMPREHENSIVE LOSS		
Items that will be reclassified to profit or loss		
Net change in fair value reserve on sukuk investments classified at FVTOCI	(35,209)	(1,691)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
Net change in fair value reserve on equity investments classified at FVTOCI	(13,023)	(10,608)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	462,147	465,375
(Attributable to the equity holders of the Bank)		

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 37 to 43.

STATEMENT OF CASH FLOWS

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018	2017
▲ CASH FLOWS FROM OPERATING ACTIVITIES:			
PROFIT FOR THE YEAR		510,379	477,674
Adjustments:			
Depreciation	12	41,694	41,630
Amortisation of sukuk issuance cost		2,140	3,827
Provision on investments in Islamic financing and other financial assets		45,172	153,743
Recoveries on subsidiaries receivables		(8,403)	(4,926)
Gain on disposal of properties held-for-sale		(5,579)	(23,450)
Revaluation loss / (gain) on investment properties	9	10,196	(6,284)
Impairment loss on properties held-for-sale	10	11,901	2,124
Gain on disposal of investment properties		(21,552)	-
Gain on disposal of property and equipment		(209)	(214)
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		585,739	644,124
▲ CHANGES IN:			
Reserve with UAE Central Bank		38,207	(266,316)
Murabaha and wakalah with financial institutions		(2,235,949)	1,088,054
Investments in Islamic financing		(2,756,767)	(4,770,115)
Other assets		23,762	(51,205)
Customers' deposits		4,119,752	3,989,587
Due to banks		2,959,203	359,400
Zakat paid		(2,305)	(25,535)
Other liabilities		(63,027)	(176,047)
NET CASH GENERATED FROM OPERATING ACTIVITIES		2,668,615	791,947
▲ CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment		(41,149)	(49,990)
Disposal of property and equipment		278	542
Acquisition of investment properties		(248,046)	(32,850)
Disposal of investment properties		109,036	56,406
Acquisition of properties held for sale		(114,501)	(57,337)
Disposal of properties held for sale		17,797	101,167
Investment securities, net		(1,234,547)	(939,241)
NET CASH USED IN INVESTING ACTIVITIES		(1,511,132)	(921,303)
▲ CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of sukuk		1,832,220	266,805
Sukuk repayment		(1,836,500)	-
Cash dividends	18	(234,789)	-
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES		(239,069)	266,805
NET INCREASE IN CASH AND CASH EQUIVALENTS		918,414	137,449
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	27	2,174,874	2,037,425
CASH AND CASH EQUIVALENTS, END OF THE YEAR	27	3,093,288	2,174,874

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 37 to 43.

STATEMENT OF CHANGES IN EQUITY

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Legal reserves	Statutory reserves	General impairment reserve	Fair value reserve	Retained earnings	Total shareholders' equity
▲ As at 1 January 2017	2,425,500	1,330,626	89,008	-	(29,492)	1,040,602	4,856,244
▲ Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	477,674	477,674
▲ Other comprehensive income (OCI)							
Net change in fair value reserve	-	-	-	-	(12,299)	-	(12,299)
Realized loss on financial assets through OCI transferred to retained earnings	-	-	-	-	2,303	(2,303)	-
Total comprehensive income for the year	-	-	-	-	(9,996)	475,371	465,375
▲ Transactions recorded directly in equity							
Issuance of bonus shares	242,550	-	-	-	-	(242,550)	-
Conversion of sukuk (note 17)	266,805	-	-	-	-	-	266,805
Transfer to legal reserve (note 20)	-	47,276	-	-	-	(47,276)	-
Zakat	-	-	-	-	-	(63,894)	(63,894)
Board of directors' fees (note 19)	-	-	-	-	-	(5,250)	(5,250)
Total transactions with owners	509,355	47,276	-	-	-	(358,970)	197,661
As at 31 December 2017	2,934,855	1,377,902	89,008	-	(39,488)	1,157,003	5,519,280
▲ As at 1 January 2018	2,934,855	1,377,902	89,008	-	(39,488)	1,157,003	5,519,280
Changes on initial application of IFRS 9 (note 3)	-	-	-	-	-	(295,211)	(295,211)
Restated balance at 1 January 2018	2,934,855	1,377,902	89,008	-	(39,488)	861,792	5,224,069
▲ Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	510,379	510,379
▲ Other comprehensive income							
Net change in fair value reserve	-	-	-	-	(48,232)	-	(48,232)
Realized loss on financial assets through OCI transferred to retained earnings	-	-	-	-	183	(183)	-
Total comprehensive income for the year	-	-	-	-	(48,049)	510,196	462,147
▲ Transactions recorded directly in equity							
Transfer to legal reserves (note 20)	-	51,362	-	-	-	(51,362)	-
Dividend	-	-	-	-	-	(234,789)	(234,789)
Transfer to general impairment reserve	-	-	-	66,717	-	(66,717)	-
Zakat	-	-	-	-	-	(58,545)	(58,545)
Board of directors' fees (note 19)	-	-	-	-	-	(5,250)	(5,250)
Total transactions with owners	-	51,362	-	66,717	-	(416,663)	(298,584)
As at 31 December 2018	2,934,855	1,429,264	89,008	66,717	(87,537)	955,325	5,387,632

The accompanying notes form an integral part of these consolidated financial statements. The independent auditors' report is set out on page 37 to 43.

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

1. LEGAL STATUS AND ACTIVITIES

SHARJAH ISLAMIC BANK PJSC (“the Bank”) was incorporated in 1975 as a public joint stock company by an Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and is listed on the Abu Dhabi stock market.

At the extraordinary shareholders’ meeting held on 18 March 2001 a resolution was passed to transform the Bank’s activities to be in full compliance with the Islamic Shari’a rules and principles. The entire process was completed on 30 June 2002 (“the transformation date”). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30 June 2002 after negotiation and agreement with its customers.

The Bank is mainly engaged in corporate, retail and investment banking activities in accordance with its articles of incorporation, Islamic Shari’a principles and regulation of the Central Bank of UAE (“the CBUAE”), which are carried out through its 33 branches (2017 : 32 branches) established in United Arab Emirates.

The consolidated financial statements of the Group comprises the Bank and its fully owned subsidiaries incorporated in the United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Services LLC (SIFS), ASAS Real Estate and SIB Sukuk Company III Limited, a special purpose vehicle established in the Cayman Islands, (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 and SIB Sukuk Company III Limited was established for the Bank’s Sukuk program.

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

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards (“IFRS”) as issued by International Accounting Standard Board (“IASB”), and comply with the guidance of the CBUAE, Islamic Shari’a principles and applicable requirements of the UAE Federal law No. 2 of 2015.

b. Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following that are measured at fair value:

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

c. Functional and presentation currency

These consolidated financial statements of the Group are presented in UAE Dirham (AED), which is the Group’s functional and presentation currency, rounded to the nearest thousand.

d. Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. BASIS OF PREPARATION (CONTINUED)

d. Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. In particular, these estimates and judgments relate to;

- impairment losses on investments in Islamic financing (refer note 7 & 28);
- amortised cost investments (refer note 8 & 28);
- net realizable value of held for sale properties (refer note 10 & 28);
- valuation of unquoted investment securities and impairment losses on investment securities (refer note 8); and
- investment properties (refer note 9 & 28).

Information about estimates and judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the note 4(ii)(a); where establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL is detailed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the mandatory adoption of new accounting standards stated in note 3(x). The significant accounting policies adopted in preparation of these consolidated financial statements are as follows:

a. Basis of consolidation

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

i) Subsidiaries

Subsidiaries' are entities controlled by the Bank. The Bank 'controls' an entity when it 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

ii) Loss of control

When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of consolidation (continued)

iv) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the Islamic securitization of particular assets, or the execution of a specific financing transaction. Special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is that the Bank controls the special purpose entity.

b. Non-derivative financial instruments

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.

i. Classification and measurement of financial assets

The Group classifies its financial assets at initial recognition in the following categories:

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly carried at fair value through other comprehensive income (FVTOCI).

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- 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.

Financial assets that do not meet the amortised cost criteria are measured at FVTPL or FVOCI. In addition, financial assets that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets may be designated as 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 and losses on them on different basis.

Financial assets are initially recognised and subsequently measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of profit or loss. All directly attributable costs are charged to consolidated statement of profit or loss.

Dividend income on investments in equity instruments at FVTPL or FVOCI is recognised in the consolidated statement of profit or loss when Group's right to receive is established.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate equity investments under the classification of FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. A sukuk is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial assets measured 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Non-derivative financial instruments (continued)

i. Classification and measurement of financial assets (continued)

Financial assets at fair value through other comprehensive income (FVTOCI) (continued)

Dividends on equity investments are recognised in the consolidated statement of profit or loss when Group's right to receive is established.

Financial assets measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order 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 profit on the principal amount outstanding.

The effective profit 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 profit 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 profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Financial assets measured at amortised cost are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised cost using their effective yield less any impairment.

Income is recognised in the consolidated statement of profit or loss on an effective profit rate basis for financing and investing instruments measured subsequently at amortised cost.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised cost to FVTPL or FVOCI, if the objective of the business model changes so that the amortised cost criteria is no longer met.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are supporting those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Non-derivative financial instruments (continued)

i. Classification and measurement of financial assets (continued)

Assessment of whether contractual cash flows are "solely payments of principal and profit (SPPP)"

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPP, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse financing); and
- features that modify consideration of the time value of money (e.g. periodical reset of profit rates).

The Bank does hold a portfolio of long-term fixed-rate financing for which the Group has the option to propose to revise the profit rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The customers have an option to either accept the revised rate or redeem the financing at par without penalty. The Group has determined that the contractual cash flows of these financings are SPPP because the option varies the profit rate in a way that is consideration for the time value of money, credit risk, other basic financing risks and costs associated with the principal amount outstanding.

Following terminologies for financial assets, classified under each of the financial instrument classification mentioned above, have been used in preparation of these consolidated financial statements:

Murabaha is an agreement for sale of commodities purchased by the Group based on the promise of the customer to buy the commodities on a cost plus the agreed profit basis.

Istisna'a is a sale contract between two parties whereby the Group undertakes to construct, for its customer, a specific asset or property according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount.

Wakala is an agency or a delegated authority where the muwakkil (principal) appoints the wakil (agent) to carry out a specific job on behalf of the muwakkil.

Musharaka is an agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement.

Sukuks are asset backed Sharia'a compliant trust certificates.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

Ijarah is classified as a finance lease, when the Group transfers substantially all the risks and rewards incident to an ownership of the Ijarah receivable to the lessee. Ijarah receivable represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Ijarah receivables are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Non-derivative financial instruments (continued)

ii. Classification and measurement of financial liabilities

The Group has classified all its financial liabilities at amortised cost. These include customer deposits, due to banks, sukuk payable, other liabilities, except zakat payable.

All financial assets and liabilities are recognised when a Group becomes a party to the contractual provisions of the instrument i.e. trade date (including regular way purchase and sale of financial assets).

iii. Derecognition of financial instruments

Financial assets

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expires, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in the consolidated statement of profit or loss, except for equity instruments designated at fair value through OCI.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Gains and losses on sukuks recognised in OCI are reclassified to profit and loss upon derecognition.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between the carrying value of the original financial liability and the consideration paid is recognised in consolidated statement of profit or loss.

iv. Fair value measurement principles

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If there is no quoted price in an active market, then the Group uses valuation technique that maximises the use of relevant observable inputs and minimise the use of unobservable inputs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Non-derivative financial instruments (continued)

iv. Fair value measurement principles (continued)

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Investments in unlisted funds and securities are fair valued internally by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values these models are tested before they are used and are calibrated to ensure that outputs reflect actual data and comparative model prices.

v. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

vi. Impairment of financial assets

Policy after 1 January 2018

The IFRS 9 expected credit loss model is forward-looking compared to the IAS 39 incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either:

- i. Over the following twelve months, or
- ii. Over the expected life of a financial instrument depending on credit migration from inception. Expected credit loss (ECL) should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable forecasts.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Group has developed new methodologies and models taking into account the relative size, quality and complexity of the portfolios.

IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity. This Stage 1 approach is different to the current approach which estimates a collective allowance to recognize losses that have been incurred but not reported on performing Islamic financing.

Stage 2 – When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on a lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – Financial assets that have objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Non-derivative financial instruments (continued)

vi. Impairment of financial assets (continued)

Assessment of significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) on a financial instrument has increased significantly since the initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- i. the remaining lifetime PD as at the reporting date; with
- ii. the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

At each reporting date, the assessment of a change in credit risk will be assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to stage 2 from stage 3 or from stage 2 to stage 1, if the increase in credit risk since origination has reduced and is no longer deemed significant, subject to the guidelines as specified by the Central Bank of UAE (CBUAE).

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. Based on advice from the Risk management department and external economic experts and consideration of a variety of external actual and forecast information, the Group has formulated a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios, which shall in turn be probability weighted to determine ECL.

Expected life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options, extension and rollover options. For credit cards that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Experienced credit judgment

The Bank's ECL allowance methodology, requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Definition of default and write-off

Default definition followed by the Bank for the impairment assessment remains in line with the guidelines of IFRS 9 and CBUAE, without any recourse to the assumptions. Inputs and assumptions into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Non-derivative financial instruments (continued)

vi. Impairment of financial assets (continued)

Modified financial assets

The contractual terms of investment in Islamic financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing investment in Islamic financing whose terms have been modified may be derecognized and the renegotiated investment in Islamic financing recognized as a new financing at fair value.

If the expected modifications do not result in the derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

Policy before 1 January 2018

Financial assets classified at amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows relating to the asset that can be reliably measured. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of profit or loss. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

Impairment of financing and Ijara receivables, measured at amortised cost, is assessed by the Group as follows:

Individually assessed financing receivables and ijara financing

Financing and ijara receivables are individually assessed as to whether there exists any objective evidence of impairment. These assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Group in accordance with the original contractual terms.

The amount of the impairment loss recognised in the consolidated statement of profit or loss is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral, calculated using the financial asset's original effective profit rate.

Collectively assessed financing receivables and ijara financing

Impairment is determined on a collective basis for two different scenarios:

- for financing subject to individual assessment to cover losses which have been incurred but have not yet been identified;
- for homogeneous groups of financing that are not considered individually significant.

In assessing collective impairment the Group uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

When a financing and ijara receivable is uncollectible, it is written off against the related allowance for impairment. Such financing receivable are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for impairment in the consolidated statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Non-derivative financial instruments (continued)

vi. Impairment of financial assets (continued)

Policy before 1 January 2018 (continued)

Collectively assessed financing receivables and ijara financing (continued)

Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against financing and Ijara receivables. Profit on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

c. Investment properties

Properties held for rental or capital appreciation are classified as investment properties. Investment properties are initially stated at cost and subsequently measured at fair value, determined at least annually by an independent professional valuer. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of profit or loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

Transfers to and from investment properties are made when and only when there is change in use, evidenced by either starting or ending of owner-occupation, commencement or cessation of an operating lease to another party or commencement or cessation of construction or a development plan.

d. Properties held-for-sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

Transfer to and from held-for-sale properties is in case of change in use.

e. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

f. Intangibles

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis to consolidated statement of profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is seven years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

h. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less cost to sell. The reduction in value is recognised in the consolidated statement of profit or loss.

An impairment loss is reversed only to the extent that assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

j. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), nostro balances with other banks and financial institutions, international murabaha and wakalah arrangements, due to banks and other highly liquid assets with original maturities of less than three months from the date of acquisition, and are used by the Group in the management of its short term commitments.

k. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

l. Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

m. Provision

A provision is recognised as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

n. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Financial guarantees and financial commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified customer fails to make payment when due in accordance with the terms of a debt instrument. Financial commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a financing at a below-market profit rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a financing at a below-market profit rate are included within other liabilities.

p. Revenue recognition

Murabaha

The profit on Murabaha is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on an effective yield basis.

Ijarah

Income from Ijarah receivable is recognised on an accrual basis on an effective yield basis.

Fees and commissions

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or financial liability are included in the measurement of the effective profit rate.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Retail and corporate banking services	<p>The Group provides banking services to retail and corporate customers including trade finance, account management, foreign currency transactions, credit cards and servicing fees (e.g. documentation and processing fee).</p> <p>Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.</p> <p>Transaction-based fees for interchange, foreign currency transactions are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.</p>	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place. The premium received on trade finance activities is recognised in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantees and letters of credit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Revenue recognition (continued)

Investment related activities

The Group's investment segment provides various finance-related services, including finance administration and agency services, administration of a finance syndication, execution of client transactions with exchanges and securities underwriting.

Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables.

Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date.

Revenue related to transactions is recognised at the point in time when the performance obligation has been fulfilled.

Transaction-based fees for administration of a finance syndication, execution of transactions, and securities underwriting are charged when the performance obligation has been fulfilled.

Rental income

Rental income from investment properties is recognised in profit and loss on a straight-line basis over the term of the leases.

Dividend income

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive income is established. Usually this is the ex-dividend date for equity securities.

Income from subsidiaries

Income from subsidiaries includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

Revenue from sale of properties

Revenue from the sale of properties is recognised when the properties are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Cost of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Provision for end-of-service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the reporting date in accordance with the UAE Labour Law. The liability for employees end of service benefits is recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period and is calculated annually using the projected unit credit method in accordance IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation with.

r. Due to banks

Amounts due to banks are initially recognised at the fair value of the consideration received, and are subsequently measured at amortised cost using the effective profit method.

s. Customers' deposits

The Bank accepts customer savings and time deposits on a Mudaraba and Wakala basis, whereas current and other similar in nature deposits are accepted on a Qard Hassan (profit free finance) basis.

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distribution to depositors for Mudaraba deposits are calculated in accordance to the Group's standard procedures and are approved by the Group's Sharia'h Supervisory Board.

t. General impairment reserve

The General impairment reserve is maintained in accordance with the guidelines of the CBUAE as issued in March 2018. The general impairment reserve is calculated as a difference between 1.5% of total credit risk weighted assets and ECL (stage 1 and 2). If the general impairment allowance as per the CBUAE requirement is greater than ECL (stage 1 and 2), the difference is transferred to general impairment reserve as an appropriation from the retained earnings.

At each subsequent reporting date, the general impairment reserve is recomputed and any resultant difference is either released to retained earnings or transferred from retained earnings to arrive at 1.5% of credit risk weighted assets, together with general impairment reserve and ECL (stage 1 and 2). No general impairment reserve is required to be maintained in case ECL (stage 1 and 2) is greater than 1.5% of credit risk weighted assets.

u. Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in consolidated statement of profit or loss, other than investments classified as FVOCI, where the exchange translation is recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

w. Segment reporting

Income and expenses directly associated with each segment, as well as those that can be reasonably associated on a reasonable basis, are included in determining business segment performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Group has determined the Group's management Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis.

x. Standards and interpretation adopted for accounting periods beginning on 1 January 2018

Except for the new significant policies as applicable from 1 January 2018, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018. The Group has initially adopted IFRS 9 (see A) and IFRS 15 (see B) from 1 January 2018.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The Bank has recorded an adjustment of AED 295.2 million to its opening retained earnings on 1 January, 2018, to reflect the application of the new requirements of impairment at the adoption date and has not restated comparative periods.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

A. IFRS 9 Financial Instruments

The Group had early adopted IFRS 9- Classification and Measurement requirements in the previous years. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized in note 3b(vi).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

A. IFRS 9 Financial Instruments (continued)

I. Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model. Provision to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Impairment allowance under IAS 39	Re-measurements	Impairment allowance under IFRS 9
Cash and balances with banks and financial institutions	-	1	1
Murabaha and wakalah with financial institutions	-	413	413
Investments in Islamic financing	1,139,881	283,943	1,423,824
Investment securities measured at amortised cost	19,205	12,845	32,050
Other assets (excluding non-financial assets)	56,034	(6,313)	49,721
LCs and LGs (off-balance sheet)	-	4,322	4,322
	1,215,120	295,211	1,510,331

II. Adjustment to retained earnings

:has been to decrease retained earnings as follows 2018 January 1 as at 9 The impact of the adoption of IFRS

	Retained earnings
Closing balance under IAS 39 as at 31 December 2017	1,157,003
Impact on recognition of expected credit losses	
Cash and balances with banks and financial institutions	(1)
Murabaha and wakalah with financial institutions	(413)
Investments in Islamic financing	(283,943)
Investment securities measured at amortised cost	(12,845)
Other assets (excluding non-financial assets)	6,313
LCs and LGs (off-balance sheet)	(4,322)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	861,792

B. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's any of the income streams were not impacted by the adoption of IFRS 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2018

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have an insignificant impact on the Group's consolidated financial statements in the period of initial application.

IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i) Leases in which the Group is a lessee

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Group's lease portfolio, the Group's assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

As at 31 December 2018, the Group's future minimum lease payments under cancellable and non-cancellable operating leases amounted to AED 60.3 million, on an undiscounted basis, which is unlikely to have a material impact on the Group's consolidated financial statements.

No significant impact is expected for the Group's finance leases.

ii) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach in a way that right of use asset will be recognized equal to the present value of minimum future payments relating to operating leases and correspondingly no amount will be recognised in the retained earnings, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y. Standards and interpretation issued and not yet effective for accounting periods beginning after 1 January 2018 (continued)

Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts.

4. RISK MANAGEMENT

i. Risk management framework

The Board of Directors ("the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within the set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility, the Board is assisted by Board Committees and Management Committees. The briefing about the role and function of each committee is as follows:

Executive Committee (EC)

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

Audit Committee (AC)

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information; and
- Reviewing reports on the internal controls.
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Risk Management Committee (RMC)

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Group and the control processes with respect to such risks;
- Reviewing the risk profile of the Group;
- Managing the Risk Management Compliance and control activities of the Group;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the Group is exposed.

4. RISK MANAGEMENT (CONTINUED)

i. Risk management framework (continued)

Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

Investment Committee (IC)

The purpose of the IC is to review the quality of the Group's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related policies, as well as the approval of Investment proposals, including Sukuks and Syndicate Finance within the approval limit set by the BOD.

IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

The roles of ALCO include the following:

Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:

Asset and Liability Committee (ALCO)

- Liquidity risk – being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
- Market risk – being the following risks;
 - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility; and
 - The risk from changes in the value of portfolio of financial instruments;
- Statement of financial position risk - being the following risks;
 - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
 - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
 - The risk from material changes in global and domestic economic conditions generally.

4. RISK MANAGEMENT (CONTINUED)

i. Risk management framework (continued)

Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the finances portfolio and the sufficiency of provisions thereof.

Human Resource Committee (HRC)

HRC manages the resources, performance and hiring of individuals required by the Group on a time to time basis.

Risk management group (RMG)

In order to manage the credit, market, operational and IT security risks an RMG is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

Compliance

The overall role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

Internal audit

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures.

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

4. RISK MANAGEMENT (CONTINUED)

i. Risk management framework (continued)

Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and

Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

Governance and project management of IFRS 9

The adoption of IFRS 9 was a significant milestone for the Group, involving substantial finance, risk management and technology resources. The project was managed through a strong governance structure across risk management, finance, technology, and the business units. The Group's system of internal controls are refined and revised where required to meet all the requirements of IFRS 9. The Group has applied many components of its existing governance framework to ensure that appropriate validations and controls are in place over new key processes and significant areas of judgment. Adoption of IFRS 9 in 2018 has resulted in revisions to procedures, changes and amendments to internal control documents, applicable credit risk manuals, development of new risk models and associated methodologies and new processes within risk management. Periodic reporting on the progress against plan and results of parallel runs were provided to Group's senior management throughout the project implementation phase.

ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

a. Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, ijarah receivable, balances with banks and financial institutions, international murabaha and wakalah with financial institutions, other assets (except prepayments and assets available for sale) and investments in debt instruments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposures into different sectors.

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

I. Concentration

Concentration risk arises when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Concentration of credit risk by industrial sector for investment in Islamic financing are presented in note 7b. Concentration of credit risk by geographical distribution of due from banks and murabaha and wakalah arrangements with financial institutions is set out in note 29.

II. 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 collaterals.

	Gross maximum exposure	
	2018	2017
Cash and balances with banks and financial institutions	285,823	744,830
Murabaha and wakalah with financial institutions	5,268,935	3,925,490
Investment in Islamic financing	25,580,511	22,847,256
Investment securities measured at amortised cost	3,854,270	3,882,019
INVESTMENT SECURITIES MEASURED AT FVTOCI	1,191,463	-
Other assets	748,777	625,167
	36,929,779	32,024,762
Contingent liabilities	748,112	511,685
TOTAL	37,677,891	32,536,447

Credit risk exposure under equity investments classified as fair value through profit and loss and fair value through other comprehensive income are not subject to any impairment under IFRS 9. Refer note 8 for details.

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

4. RISK MANAGEMENT (CONTINUED)**ii. Financial risk management (continued)****a. Credit risk (continued)****III. Credit quality**

The table below shows the stage wise breakup of financial assets.

	2018				2017
	ECL Staging			Total	Total
	Stage 1 12 month	Stage 2 Lifetime	Stage 3 Lifetime		
▲ Cash and balances with banks and financial institutions	285,812	11	-	285,823	744,830
Loss allowance	(24)	-	-	(24)	-
Carrying amount	285,788	11	-	285,799	744,830
▲ Murabaha and wakalah with financial institutions	5,268,935	-	-	5,268,935	3,925,490
Loss allowance	(1,707)	-	-	(1,707)	-
Carrying amount	5,267,228	-	-	5,267,228	3,925,490
▲ Investments in Islamic financing	22,639,112	1,540,472	1,400,927	25,580,511	22,847,256
Loss allowance	(168,261)	(191,279)	(1,097,211)	(1,456,751)	(1,139,881)
Carrying amount	22,470,851	1,349,193	303,716	24,123,760	21,707,375
▲ Investment securities measured at amortised cost	3,828,663	-	25,607	3,854,270	3,882,019
Loss allowance	(6,244)	-	(24,327)	(30,571)	(19,205)
Carrying amount	3,822,419	-	1,280	3,823,699	3,862,814
▲ Investment securities measured at FVTOCI	1,191,463	-	-	1,191,463	-
Loss allowance	(958)	-	-	(958)	-
Carrying amount	1,190,505	-	-	1,190,505	-
▲ Other assets (excluding non-financial assets)	712,351	1,274	35,152	748,777	625,167
Loss allowance	(6,948)	(7)	(35,152)	(42,107)	(56,034)
Carrying amount	705,403	1,267	-	706,670	569,133
Total credit risk exposures relating to on-balance sheet assets	33,742,194	1,350,471	304,996	35,397,661	30,809,642
▲ Letter of credit and guarantee	740,207	7,674	231	748,112	511,685
Loss allowance	(2,892)	(393)	-	(3,285)	-
Credit risk exposures relating to off-balance sheet assets	737,315	7,281	231	744,827	511,685
	34,479,509	1,357,752	305,227	36,142,488	31,321,327

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

IV. Credit risk exposure of the Group's financial assets for each internal risk rating

Investment in Islamic financing	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Investment grade	11,269,846	112,765	-	11,382,611	1,126,089
Non-investment grade	11,369,266	1,174,099	-	12,543,365	10,420,142
Watch-list	-	253,608	-	253,608	10,783,135
Credit impaired	-	-	1,400,927	1,400,927	517,890
Grand Total	22,639,112	1,540,472	1,400,927	25,580,511	22,847,256
Investment securities					
	Stage 1	Stage 2	Stage 3	Total	Total
Investment grade	4,766,843	-	-	4,766,843	3,584,961
Non-investment grade	253,283	-	-	253,283	271,451
Credit impaired	-	-	25,607	25,607	25,607
Grand Total	5,020,126	-	25,607	5,045,733	3,882,019

V. Significant increase in credit risk ("SICR")

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 Group considers a financial asset to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

Corporate financing:

For corporate financing, if the borrower experiences a significant increase in probability of default which can be triggered by the following factors:

- financing facilities restructured in the last 12 months;
- financing facilities that are past due for 30 days and above but less than 90 days;
- Actual or expected change in external ratings and / or internal ratings

Retail:

For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- financing rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury

- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment's expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk ("SICR") (continued)

Qualitative criteria:

Feedback from the early warning signal framework of the Group (along with factors such as adverse changes in business, financial or economic conditions).

Backstop:

A backstop is applied and the financial asset is considered to have experienced a SICR if the borrower is more than 30 days past due on its contractual payments.

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2018.

Credit grades

The Group uses internal credit risk gradings that reflects its assessment of the probability of default of an individual customer.

The Group's rating method comprises 19 ratings levels for instruments not in default (1 to 7-) and three default classes (8-10). Investment grade is considered to be financial assets falling within credit grades 1 to 4-. Non-investment grade is considered to be financial assets falling within credit grades 5+ to 7, whereas, financial assets credit graded 7- are considered to be watch-list. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating method is subject to annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure is allocated to a credit risk grade on initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the corporate customers portfolio, to external credit ratings of Moody's, Fitch and S & P rating agencies.

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk ("SICR") (continued)

Credit grades (continued)

SIB Grade Scale & Classification	S & P Rating Benchmark	Fitch Rating Benchmark	Moody's Rating Benchmark	ERR Grade	PD %	Grade Description	
1	Excellent	AAA	AAA	Aaa	1	0.008	Exceptional business credit, judged to be of the highest quality, with minimal credit risk. Superior asset quality and financial capacity; which includes strong liquidity and cash generation, excellent and proven management; market leader.
2	Strong	AA+	AA+	Aa 1	+2	0.013	Very good business along with very good asset quality, consistently strong liquidity and financing capacity; highly regarded in the industry with strong market share.
		AA	AA	Aa 2	2	0.019	
		AA-	AA-	Aa 3	-2	0.029	
3	Good	A+	A+	A1	+3	0.044	Good business credit considered upper-medium grade, subject to low credit risk; good asset quality, strong liquidity and financing capacity. Company is above average size and holds a good position in the industry.
		A	A	A2	3	0.067	
		A-	A-	A3	-3	0.1	
4	Satisfactory	BBB+	BBB+	Baa 1	+4	0.155	Acceptable business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher than average risk characteristics. Customer has demonstrated adequate to good performance.
		BBB	BBB+	Baa 2	4	0.235	
		BBB-	BBB-	Baa 3	-4	0.355	
5	Adequate	BB+	BB+	Ba 1	+5	0.565	Average to below average business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher risk characteristics. Customer has demonstrated adequate performance.
		BB	BB	Ba 2	5	0.85	
		BB-	BB-	Ba 3	-5	1.25	
6	Marginal	B+	B+	B 1	+6	1.9	Below average business credit and subject to high credit risk. Customer is likely a lower-tier competitor in its industry. Acceptable but requiring close monitoring and support of strong risk mitigants.
		B	B	B 2	6	2.9	
		B-	B-	B 3	-6	4.25	
		CCC+	CCC+	Caa 1	+7	6.5	
		CCC	CCC	Caa 2	7	10	
7	Vulnerable	CCC-	CCC-	Caa 3	-7	13.5	Weak business credit: Judged to be poor standing and subject to very high credit risk. Constitutes undue and unwarranted credit risk. Currently in performing status and not to the point of justifying a Substandard classification.
8	Substandard	CC	CC	Ca	8	100	In Default (Substandard): Unacceptable business credit with normal repayment in jeopardy.
9	Doubtful	C	C	C	9	100	In Default (Doubtful): Full repayment questionable. Serious problems to the point where partial loss of principal is likely.
10	Loss	D	D	-	10	100	In Default (Loss): Expected loss. Such an asset may have recovery but not to the point of avoiding loss classification. Possible stage 3 provision and write-off.

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk ("SICR") (continued)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and customer as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

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 customer, and the geographical region. What is considered significant differs for various types of financing, in particular between corporate and retail portfolios. The increase in PD is dependent upon multiple factors including customer industry, customer initial rating, maturity of financing, repayment frequency, product type, etc.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

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).

Definition of default

The Group considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising collateral (if any is held);
- it is becoming probable that the customer will restructure the asset as a result of bankruptcy due to the customer's inability to pay its credit obligations.

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk ("SICR") (continued)

Definition of default (continued)

In assessing whether a customer is in default, the Group 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 Group; 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. The definition of default largely aligns with that applied by the Group for regulatory capital purposes

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, optimistic and downside scenario. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting.

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Group's senior management.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key macroeconomic drivers for credit risk for corporate portfolio are oil price and equity price index, whereas, for retail portfolio are non-oil UAE GDP, oil price and UAE CPI index.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

V. Significant increase in credit risk ("SICR") (continued)

Measurement of ECL (continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financings secured by retail and commercial property, CBUAE haircuts are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective price rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The

EAD of a financial asset is its gross carrying amount at the time of default. For financing commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by computing credit conversion factors through modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of a finance or terminate a finance commitment or guarantee.

However, for retail and credit card facilities that include both a financing and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the customer.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Reconciliations from the opening to the closing balance of the loss allowance by class of financial asset is provided in note 7.

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

a. Credit risk (continued)

VI. Financial assets with renegotiated terms

For the purposes of disclosures in these consolidated financial statements, 'Investment in Islamic financing with renegotiated terms' are defined as investment in Islamic financing that have been restructured due to a deterioration in the customer's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favorable for the customer than the Group had provided initially and that it would not otherwise consider.

The Group renegotiates investment in Islamic financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance is granted on a selective basis if the customer is currently in default on its liability or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

VII. Collaterals and securities

The Group holds collateral and securities against investment in Islamic financing in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to investment in Islamic financing are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below.

Investment in Islamic financing	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Mortgage of properties	8,929,069	1,021,577	344,649	10,295,295	10,048,247
Cash lien and others	122,269	19,682	742	142,693	33,020
Carrying amount	9,051,338	1,041,259	345,391	10,437,988	10,081,267

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

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

4. RISK MANAGEMENT (CONTINUED)**ii. Financial risk management (continued)****b. Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach for managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

The Group's board of directors set the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Treasury department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and operating subsidiaries. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2018	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
▲ Assets					
Cash and balances with banks and financial institutions	2,440,868	-	-	-	2,440,868
Murabaha and wakalah with financial institutions	6,464,261	385,665	367,300	-	7,217,226
Investment in Islamic financing	1,630,349	3,570,112	11,870,906	7,052,393	24,123,760
Investment securities	344,134	599,261	3,639,495	1,637,562	6,220,452
Other assets	706,670	-	-	-	706,670
	11,586,282	4,555,038	15,877,701	8,689,955	40,708,976
▲ Liabilities					
Customers' deposits	19,798,665	6,639,610	-	-	26,438,275
Due to banks	3,066,086	1,686,230	1,796,465	-	6,548,781
Sukuk payable	-	-	5,499,603	-	5,499,603
Other liabilities	680,759	123,290	5,558	-	809,607
	23,545,510	8,449,130	7,301,626	-	39,296,266
Contingent liabilities	197,136	524,419	1,394,075	-	2,115,630

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

b. Liquidity risk

Exposure to liquidity risk (continued)

31 December 2017	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
▲ Assets					
Cash and balances with banks and financial institutions	3,103,111	-	-	-	3,103,111
Murabaha and wakalah with financial institutions	3,319,445	312,205	293,840	-	3,925,490
Investment in Islamic financing	1,695,470	3,176,741	10,680,246	6,154,918	21,707,375
Investment securities	430,437	245,344	3,118,082	1,240,274	5,034,137
Other assets	487,754	81,379	-	-	569,133
	9,036,217	3,815,669	14,092,168	7,395,192	34,339,246
▲ Liabilities					
Customers' deposits	17,784,124	4,534,399	-	-	22,318,523
Due to banks	2,523,341	-	1,552,900	-	4,076,241
Sukuk payable	-	1,835,962	3,665,781	-	5,501,743
Other liabilities	672,572	131,653	4,613	-	808,838
	20,980,037	6,502,014	5,223,294	-	32,705,345
Contingent liabilities	4,495	182,571	1,770,950	252,505	2,210,521

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 27). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

The residual maturity of the Group's financial liabilities is not significantly different from its contractual maturity, since, the Group follows Shari'a principles and contractual returns which is based on a profit or loss sharing basis and are not guaranteed.

c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit margin risk

The Group is not significantly exposed to risk in terms of re-pricing its customer deposits, since, in accordance with Islamic Sharia, the Group does not provide a contractual rate of return to its investment account holders. The return payable to depositors and investment account holders is based on the principal of the mudaraba, by which the depositors and investment account holders agree to share the profits made by the Group's mudaraba asset pool over a given period.

Profit rate risk

The principal risk to which non-trading portfolios are exposed, is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. Profit rate risk primarily comprises of market and valuation risk, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

c. Market risks (continued)

Exposure to liquidity risk (continued)

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the net income for one year, based on the non-trading financial asset and financial liabilities

	Increase / decrease in basis point	Increase / decrease in net income	
		2018	2017
Net profit rate sensitivity on financial assets and liabilities	50 basis points	22,222	19,542

Currency risk

Currency risk is the risk that the Group's income or value of a financial instrument, other than functional currency denominated financial instruments, will fluctuate because of changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Group's open position and current and expected exchange rate movements. The Group does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency net position		
US dollar	(1,654,089)	(1,543,278)
UK Sterling	45,262	39,888
Euro	(1,413)	(7,498)
Bahrani Dinar	7,402	7,399
Saudi Riyals	(66,992)	(4,397)
Kuwaiti Dinar	717	(1,023)

The exchange rate of AED against US Dollar is pegged since November 1980 and therefore, the Group's exposure to currency risk is limited to that extent.

Equity price risk

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The table summarises the impact of a change in equity prices by $\pm 10\%$ on statement of profit or loss and other comprehensive income of the Group.

	2018		2017	
	Effect on profit or loss	Effect on other comprehensive income	Effect on profit or loss	Effect on other comprehensive income
Financial assets at fair value through profit or loss	4,238	-	4,932	-
Financial assets at fair value through other comprehensive income	-	116,387	-	106,689

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

d. Operational risks

Operational risk is the risk of a direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. In all cases, the Group's operational risk policies requires compliance with all applicable legal and regulatory requirements.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

e. Capital management

Regulatory capital

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements. The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year. The Group has adopted a standardised approach for Credit risk and Market risk and a Basic Indicator approach for Operational risk as a starting point and is working towards migrating to the foundation internal rating based (IRB) and advanced IRB in accordance with the time line set by CBUAE.

- Tier 1 capital, which includes ordinary share capital, legal and statutory reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

- Total tier 2 capital shall not exceed 67% of tier 1 capital
- Subordinated liabilities shall not exceed 50% of total tier 1 capital
- Collective impairment provision shall not exceed 1.25% of risk weighted assets.

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

e. Capital management (continued)

The table below summarises the composition of regulatory capital of the Group:

	Basel III	
	2018	2017
▲ Tier 1 capital		
Ordinary share capital	2,934,855	2,934,855
Retained earnings	932,793	1,134,084
Fair value reserve	(87,537)	(39,488)
Statutory reserve	89,008	89,008
Legal reserve	1,429,264	1,377,902
Total tier 1 capital base	5,298,383	5,496,361
▲ Tier 2 capital		
Collective impairment provisions	371,192	321,818
Total tier 2 capital base	371,192	321,818
Total capital base	5,669,575	5,818,179
▲ Risk weighted assets		
Credit risk	29,695,340	25,745,411
Market risk	145,334	263,612
Operational risk	2,202,861	2,234,511
Risk weighted assets	32,043,535	28,243,534
Tier 1 ratio	16.53%	19.46%
Capital adequacy ratio	17.69%	20.60%
Capital adequacy ratio (excluding proposed cash dividends)	16.96%	19.77%

	2018				
Asset classes	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion	Risk weighted assets
Claims on sovereigns	10,060,574	10,060,574	-	10,060,574	861,786
Claims on non-commercial public sector	1,729,211	1,729,211	-	1,725,179	-
Claims on banks	7,504,847	7,504,847	-	7,504,006	2,599,531
Claims on corporate and government	11,613,311	11,588,965	(40,938)	10,666,087	10,513,519
Claims included in the regulatory retail portfolio	7,977,118	7,977,065	(81,709)	7,967,092	7,264,673
Claims secured by residential property	1,231,593	1,231,593	(121)	1,231,593	951,347
Claims secured by commercial real estate	112,343	112,343	-	112,343	112,343
Past due financing	1,585,515	457,433	(740)	449,837	559,173
Higher-risk categories	10,565	10,565	-	10,565	15,847
Other assets	6,562,233	6,527,080	-	6,519,909	6,817,121
Total claims	48,387,310	47,199,676	(123,508)	46,247,185	29,695,340

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

4. RISK MANAGEMENT (CONTINUED)

ii. Financial risk management (continued)

e. Capital management (continued)

Asset classes	2017				
	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion	Risk weighted assets
Claims on sovereigns	9,192,491	9,192,491	-	9,192,491	670,614
Claims on non-commercial public sector	1,149,857	1,149,857	-	1,149,857	-
Claims on banks	5,488,473	5,488,473	-	5,487,569	1,582,469
Claims on corporate and government	10,711,185	10,711,182	(32,867)	9,694,880	9,662,013
Claims included in the regulatory retail portfolio	7,703,191	7,703,076	-	7,693,153	7,061,906
Claims secured by residential property	859,470	859,417	-	859,417	660,378
Claims secured by commercial real estate	126,137	126,137	-	126,137	126,137
Past due financing	1,262,261	431,449	-	430,626	526,618
Higher-risk categories	10,863	10,863	-	10,863	16,295
Other assets	5,175,183	5,175,183	-	5,174,715	5,438,981
Total claims	41,679,111	40,848,128	(32,867)	39,819,708	25,745,411

Risk weights for market risk

Capital requirement for market risk is calculated using the standardised approach. The capital requirement for market risk is analysed into the capital requirement for profit rate risk, equity risk and foreign exchange risk.

A summary of the capital requirement for market risk under the standardised approach of Basel III is set out below:

	2018	2017
Equity position risk	8,899	21,930
Foreign currency risk	6,361	5,748
	15,260	27,678

Risk weight for operational risk

The capital requirement for operational risk is calculated using the basic indicator approach. The total capital requirement is calculated as 15% of the last three years average income which amounts to AED 231.3 million (2017: AED 234.6 million).

5. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

Cash		463,460	449,397
Statutory deposit with CBUAE		1,689,711	1,727,918
Due from banks	5.1	287,697	925,796
		2,440,868	3,103,111

5.1 Due from banks includes a current account balance with CBUAE amounting AED 1.9 million (2017: AED 181 million).

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

6. MURABAHA AND WAKALAH WITH FINANCIAL INSTITUTIONS

		2018	2017
Murabaha		610,908	91,968
Wakala arrangements	6.1	6,606,318	3,833,522
		7,217,226	3,925,490

6.1 Wakala arrangements with financial institutions includes Islamic certificate of deposits with CBUAE amounting AED 1.95 billion (2017: AED 0.80 billion).

7. INVESTMENTS IN ISLAMIC FINANCING

Investments in Islamic financing are secured by acceptable forms of collateral to mitigate the related credit risk, as disclosed in note 4(a). Investments in Islamic financing comprise the following:

a) By type

		2018	2017
Vehicle murabaha		286,136	314,748
Goods murabaha		6,483,636	6,052,492
Real estate murabaha		112,270	169,318
Other murabaha receivable		404,247	331,976
Syndicate murabaha		1,230,249	799,998
Gross murabaha financing		8,516,538	7,668,532
Less: deferred profit		(667,904)	(683,936)
Net murabaha financing		7,848,634	6,984,596
Ijara financing		15,337,400	14,075,838
Qard hasan		637,112	517,619
Credit card receivables		72,196	54,628
Istisna		1,685,169	1,214,575
Total investments in Islamic financing		25,580,511	22,847,256
Less: Loss allowance for investments in Islamic financing	7.1	(1,456,751)	(1,139,881)
		24,123,760	21,707,375

b) By sector

Government departments and authorities		7,515,432	7,419,954
Construction		713,398	584,808
Manufacturing		634,962	617,067
Transportation		521,355	495,354
Real estate		3,517,447	3,007,980
Trading		1,115,201	952,500
Financial institutions		160,468	172,090
Other services		630,021	599,785
Individual		5,010,023	3,720,000
High net worth individuals		6,430,108	5,961,654
Deferred profit		(667,904)	(683,936)
Less: Loss allowance for investments in Islamic financing		(1,456,751)	(1,139,881)
		24,123,760	21,707,375

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

7. INVESTMENTS IN ISLAMIC FINANCING (CONTINUED)

7.1 Reconciliations from the opening to the closing balance of the loss allowance can be seen below.

	2018			
	Stage 1	Stage 2	Stage 3	Stage 4
Balance at 1 January	-	-	-	1,139,881
Re-measurement under IFRS 9	-	-	-	283,943
	165,330	358,630	899,864	1,423,824
Transfer to Stage 1	2,250	(2,250)	-	-
Transfer to Stage 2	(8,060)	8,060	-	-
Transfer to Stage 3	(1,951)	(140,005)	141,956	-
Net re-measurement of loss allowance	10,692	(33,156)	110,118	87,654
Recovery	-	-	(41,680)	(41,680)
Write-offs	-	-	(13,047)	(13,047)
Balance at 31 December	168,261	191,279	1,097,211	1,456,751
				2017
Balance at the beginning of the year				1,023,921
Written off during the year				(38,412)
Additional provision for the year				253,847
Recoveries during the year				(99,475)
Balance at the end of the year				1,139,881
Re-measurement under IFRS 9				283,943
Balance at 1 January				1,423,824

8. INVESTMENT SECURITIES

Investment securities – by category

	2018	2017
<i>Financial assets at fair value through profit or loss</i>		
- Equity and Funds	42,377	104,434
<i>Financial assets at fair value through other comprehensive income</i>		
- Equity and Funds	1,163,871	1,066,889
- Sukuks	1,191,463	-
	2,355,334	1,066,889
Less: Loss allowance on financial assets measured at FVTOCI	(958)	-
	2,354,376	1,066,889
<i>Financial assets measured at amortised cost</i>		
Less: Loss allowance on financial assets measured at amortised cost	(30,571)	(19,205)
	3,823,699	3,862,814
	6,220,452	5,034,137

8.1 The Bank has purchased equity investments worth AED 183.6 million during the year ended 31 December 2018 (2017: 102.8 million). Equity investments purchased during the year have been classified under fair value through profit or loss and fair value through other comprehensive income.

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

8. INVESTMENT SECURITIES (CONTINUED)

Investments securities – by quoted / unquoted

	2018	2017
Financial assets at fair value through profit or loss		
Quoted	5,563	67,704
Unquoted	36,814	36,730
	42,377	104,434
<i>Financial assets at fair value through other comprehensive income</i>		
Quoted	2,123,676	909,777
Unquoted	231,658	157,112
Less: Loss allowance on financial assets measured at FVTOCI	(958)	-
	2,354,376	1,066,889
<i>Financial assets at amortised cost</i>		
Quoted	3,001,955	3,231,815
Unquoted	852,315	650,204
Less: Loss allowance on financial assets measured at amortised cost	(30,571)	(19,205)
	3,823,699	3,862,814

8.2 Sukuk held at amortised cost include AED 3,231 million (2017:AED 801 million) pledged against a collateralized commodity murabaha arrangement (refer note 14.1).

9. INVESTMENT PROPERTIES

Balance at the beginning of the year	2,167,763	2,124,359
Additions	248,046	32,850
Transfer from held-for-sale	-	77,372
Transfer to property and equipment	-	(16,696)
Disposals	(87,484)	(56,406)
Revaluation (loss) / gain	(10,196)	6,284
Balance at the end of the year	2,318,129	2,167,763

The carrying amount of the investment properties is the fair value of the properties as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and is reviewed by the Board of Directors on an annual basis. Fair values were determined based on an open market value basis and significant assumptions made by the valuer are mentioned in note 28.

10. PROPERTIES HELD FOR SALE

Balance at the beginning of the year	568,078	573,248
Additions	114,501	57,337
Transfer from property and equipment	-	94,706
Transfer to investment properties	-	(77,372)
Disposals	(12,218)	(77,717)
Impairment loss	(11,901)	(2,124)
Balance at the end of the year	658,460	568,078

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

11. OTHER ASSETS

	2018	2017
Prepaid expenses and other advances	65,843	181,327
Profit receivable	272,839	223,771
Sundry debtors	266,356	134,318
Assets available for sale - murabaha assets	138,677	172,804
Others	111,656	55,747
Reimbursements under acceptances	97,926	155,297
Less: loss allowance under IFRS 9 on other assets	(42,107)	-
Less: loss allowance under IFRS 9 on LC's and LG's	(3,285)	-
	907,905	923,264

12. PROPERTY AND EQUIPMENT

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital - work in progress	Total
▲ Cost						
As at 1 January 2018	885,694	127,988	106,321	5,733	16,564	1,142,300
Additions	167	5,054	6,273	779	28,876	41,149
Disposals	(2,842)	(999)	(5,934)	(390)	-	(10,165)
Capitalised	3,331	1,847	3,198	-	(8,376)	-
As at 31 December 2018	886,350	133,890	109,858	6,122	37,064	1,173,284
▲ Accumulated depreciation						
As at 1 January 2018	134,658	105,743	38,691	3,907	-	282,999
Charge for the year	12,791	9,727	18,266	910	-	41,694
Disposals	(2,842)	(957)	(5,907)	(390)	-	(10,096)
As at 31 December 2018	144,607	114,513	51,050	4,427	-	314,597
▲ Net book value						
As at 31 December 2018	741,743	19,377	58,808	1,695	37,064	858,687
As at 31 December 2017	751,036	22,245	67,630	1,826	16,564	859,301

13. CUSTOMERS' DEPOSITS

	Note	2018	2017
Current accounts		7,815,320	8,103,493
Saving accounts		2,223,791	2,298,304
Watany / call accounts		437,870	799,286
Time deposits		15,435,348	10,661,125
Margins		525,946	456,315
		26,438,275	22,318,523

14. DUE TO THE BANKS

Term deposit	14.1	5,988,326	4,072,188
On demand		560,455	4,053
		6,548,781	4,076,241

14.1 Term deposit with banks include AED 2,376 million (2017: AED 580 million) under collateralized commodity murabaha arrangement, against which the Group has pledged sukuk amounting to AED 3,231 million (2017: AED 801 million)(refer note 8.2). The deposit bears profit rate in between 3 months LIBOR + 0.45% to 6 months LIBOR + 1.15% and is bound to mature in between 2019 and 2023. Term deposits also includes a murabaha facility of AED 973 million (2017: AED 973 million) carrying a profit rate of 3 months LIBOR + 1.65% per annum and maturing in May 2019.

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

15. SUKUK PAYABLE

Name of issuer	Maturity date	2018		2017	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk Company III Limited	15 April 2018	-	-	1,835,962	2.950%
SIB Sukuk 2020	17 March 2020	1,835,272	2.843%	1,834,268	2.843%
SIB Sukuk 2021	8 September 2021	1,832,861	3.084%	1,831,513	3.084%
SIB Sukuk 2023	17 April 2023	1,831,470	4.231%	-	-
Total		5,499,603		5,501,743	

The Bank through a Shari'a compliant medium term financing arrangement raised a US\$ denominated sukuk amounting to AED 1.83 billion (US\$ 500 million) on 18 April 2018. The sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai.

The terms of the arrangement include a transfer of certain Ijarah receivables and Shari'a compliant investment securities of the Bank (the "Co-owned assets") to SIB Sukuk Company III Limited (the "Issuers"), a special purpose vehicle formed for issuance of the sukuk. In substance, the co-owned assets remain in control of the Bank, accordingly these assets continue to be recognised in the Group's consolidated financial statements. In case of any default, the Bank has provided an undertaking to settle all losses borne by the sukuk holders.

The issuers will pay the semi-annual distribution amount from the returns received in respect of the leased assets. Such returns are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on each semi-annual distribution date. Upon maturity, the Bank has undertaken to repurchase the assets at the exercise price of AED 1.83 billion (US\$ 500 million).

16. OTHER LIABILITIES

	Note	2018	2017
Profit payable		255,129	157,412
Accrual and provision		28,538	16,379
Accounts payable		77,501	92,613
Provision for staff end of service benefits		67,760	62,211
Profit reserve		11,128	16,811
Managers' cheques		48,697	65,084
Obligations under acceptances		97,926	155,297
Sundry creditors		222,928	243,031
		809,607	808,838

17. SHARE CAPITAL

The Bank's issued and fully paid up share capital comprises 2,934,855,000 (2017: 2,934,855,000) shares of AED 1 each.

Balance at the beginning of the year		2,934,855	2,425,500
Issuance of bonus shares		-	242,550
Conversion of sukuk	17.1	-	266,805
Balance at the end of the year		2,934,855	2,934,855

17.1 During the last quarter of 2017, the Bank issued a perpetual Sukuk convertible into ordinary shares of the Bank equivalent of 10% of share capital. The perpetual Sukuk was issued for an amount of AED 266,805,000, equivalent to 10% of the share capital of the Bank as at the date of issuance with an option to convert to ordinary shares of the Bank at par value of AED 1 per share. The perpetual Sukuk was fully subscribed by the Sharjah Social Security Fund (Investor), an endowment fund established by an Emiri Decree No. 66 of 2018, issued by H.H. The Ruler of Sharjah. The Sukuk offered a profit of 2% per annum, payable to the Investor semi-annually or upon termination of the Sukuk. The Investor exercised the option to convert the Sukuk into Ordinary Shares of the Bank. Subsequent to conversion, the Sukuk was terminated and all profits due to the Investor were paid out.

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

18. DIVIDENDS

During the annual general meeting of the shareholders held on 10 February 2018, a cash dividend of 8% of the paid up capital amounting to AED 234.8 million was approved for the year ended 31 December 2017 (2017: 10% stock dividend in the ratio of one bonus share for every 10 shares held, amounting to AED 242.6 million for the year ended 31 December 2016).

19. PROPOSED DIRECTORS' REMUNERATION

In accordance with the Article 169 of Commercial Companies Law No. 2 of 2015, the proposed directors' remuneration is AED 5.3 million (2017: AED 5.3 million).

20. RESERVES

In accordance with the Bank's Articles of Association and Decretal Federal Law No. (14) of 2018, the Bank transfers 10% of annual profits, if any, to the legal reserve until it is equal to 50% of the share capital. Also, in accordance with the Bank's Articles of Association, 10% of annual profits, if any, were transferred to a statutory reserve until 2005, subsequent to which it was suspended by an ordinary general meeting upon a proposal by the Board of directors. The statutory reserve can be utilised for the purposes determined by the ordinary general meeting upon recommendations of the Board of Directors.

Further, in accordance with Guidance note to Banks and Financial Institutions on IFRS 9 Implementation, as issued by the CBUAE in March 2018, the Bank has computed a general provision as 1.5% of credit risk weighted assets as at 31 December 2018. The resultant difference between 1.5% of credit risk weighted assets and stage 1 & 2 combined ECL is transferred from retained earnings to a non-distributable general impairment reserve. Had general impairment reserve been recognised in the consolidated statement of profit or loss for the year ended 31 December 2018, profit for the year would have decreased by AED 66.7 million.

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive income.

The movements in reserves are as follows:

	Legal reserve	Statutory reserve	General impairment reserve	Fair value reserve
Balance at 1 January 2018	1,377,902	89,008	-	(39,488)
Transfer to reserve	51,362	-	66,717	183
Change in fair value of financial assets	-	-	-	(48,232)
Balance at 31 December 2018	1,429,264	89,008	66,717	(87,537)

21. INCOME FROM INVESTMENT ISLAMIC FINANCING

	2018	2017
Income from murabaha and wakala with financial institutions	112,109	58,705
Income from murabaha financing	342,343	293,748
Income from syndicate products	45,008	27,118
Income from ijara financing	752,548	694,465
Income from other Islamic financing products	71,176	36,971
	1,323,184	1,111,007

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

22. INVESTMENT, FEES, COMMISSION AND OTHER INCOME- NET

	2018	2017
Profit income on sukuk	266,413	212,292
Other investment income	4,654	12,177
Net fees and commissions	198,511	200,955
Net rental income	31,519	29,649
Net gains from dealing in foreign currencies	25,632	25,842
Net income from sale of properties held-for-sale	5,579	23,450
Net income from sale of investment properties	21,552	-
Net revaluation (loss) / gains on investment properties	(10,196)	6,284
Revaluation loss on properties held for sale	(11,901)	(2,124)
Other operating income	2,296	2,206
	534,059	510,731

23. GENERAL AND ADMINISTRATIVE EXPENSES

Staff costs	(419,458)	(387,040)
Other general and administrative expenses	(158,759)	(122,075)
Depreciation	(36,029)	(41,630)
	(614,246)	(550,745)

24. PROVISION - NET OF RECOVERIES

a) Provision on investment in Islamic financing		
Provision made during the year	(87,654)	(253,847)
Recoveries during the year	41,680	99,475
	(45,974)	(154,372)
b) Other provision		
Net ECL on other financial assets	(572)	-
Recoveries – subsidiaries receivables	8,403	4,926
	7,831	4,926
c.) Other recoveries during the year	1,374	629
Total provision - net of recoveries	(36,769)	(148,817)

25. DISTRIBUTION TO DEPOSITORS

The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders. The application of the above method resulted in:

Appropriation to depositors	546,222	304,999
Other adjustments	(5,683)	2,325
	540,539	307,324

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

26. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of earnings per share is based on earnings of AED 510.4 million (2017: AED 477.7 million) for the year divided by the weighted average number of shares for the year. There is no dilution impact on basic earnings per share.

27. CASH AND CASH EQUIVALENTS

	2018	2017
Cash and cash equivalents comprise of:		
Cash and balances with banks and financial institutions	2,440,868	3,103,111
Murabaha and wakala arrangements with financial institutions	7,217,226	3,925,490
Less: Due to banks	(6,548,781)	(4,076,241)
	3,109,313	2,952,360
Less: cash reserves with CBUAE	(1,689,711)	(1,727,918)
Less: due from banks with original maturity of more than 3 months	(2,841,994)	(606,045)
Add: due to banks with original maturity of more than 3 months	4,515,680	1,556,477
Cash and cash equivalents	3,093,288	2,174,874

27.1 Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

28. KEY ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, considerable judgment is required by management in respect of the following:

Impairment losses on investment in Islamic financing, sukuk investments and other assets

The Group reviews its portfolios of investment in Islamic financing and other assets to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Group makes judgments as to whether there is an observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within investment in Islamic financing and other assets before the decrease can be identified with an individual receivable in that portfolio.

A number of significant judgments are also required in applying the accounting requirements for measuring impairment of Investment in Islamic Financing and other assets, such as:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit loss (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.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. For detailed expected credit loss (ECL) observable and unobservable inputs, refer note 3 (vi) and note 4a.

Impairment losses on investment securities

The Bank evaluates its investments securities individually for impairment based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation. Judgment is also exercised while reviewing factors indicating and determining the objective evidence of impairment in respect of investment securities.

28. KEY ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)***Valuation of financial instruments***

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation function, which is independent of front office management and reports to the Investment Committee, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations ;
- a review and approval process for new models and changes to models involving valuation function;
- calibration and back-testing of models against observed market transactions at regular intervals;
- analysis and investigation of significant valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by Investment Committee.

Significant valuation issues are reported to the Investment Committee.

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

28. KEY ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)
Valuation of financial instruments (continued)

The table below analyses financial and non-financial assets 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:

31 December 2018	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Investment securities - FVTPL	8	5,563	-	36,814	42,377
Investment securities – FVTOCI	8	2,122,718	-	231,658	2,354,376
Total		2,128,281	-	268,472	2,396,753
Non-financial assets					
Investment properties	9	-	-	2,318,129	2,318,129
31 December 2017					
Financial assets					
Investment securities - FVTPL	8	67,704	-	36,730	104,434
Investment securities – FVTOCI	8	909,777	-	157,112	1,066,889
Total		977,481	-	193,842	1,171,323
Non-financial assets					
Investment properties	9	-	-	2,167,763	2,167,763

During the year 2018 (2017: nil), there were no transfers of any financial asset in between any of the levels in fair value hierarchy.

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the hierarchy for investment securities:

Financial assets	2018	2018	2017	2017
	FVTPL	FVOCI	FVTPL	FVOCI
Balance as at 1 January	36,730	157,112	-	100,234
Revaluation gain / (loss)	84	1,086	-	(9,236)
Additions	-	73,460	36,730	66,114
As at 31 December	36,814	231,658	36,730	157,112
Non-financial assets				
			2018	2017
Balance at the beginning of the year			2,167,763	2,124,359
Additions			248,046	32,850
Transfer from held-for-sale			-	77,372
Disposal			(87,484)	(56,406)
Revaluation (loss) / gain			(10,196)	6,284
Transfer to property and equipment			-	(16,696)
Balance at the end of the year			2,318,129	2,167,763

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

28. KEY ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)
Unobservable inputs used in measuring fair value

The investment department constantly monitors the progress of its investments by conducting its own valuation assessment along with information provided by the fund manager. Depending on the nature of the underlying asset, quantitative methods are used such as residual value, DCF/scenario analysis or comparable market valuation. Qualitative methods which involve taking into consideration the market & economic outlook are also employed.

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions by 10% would have the following effects.

	Effect on profit or loss		Effect on OCI	
	Favorable	Unfavorable	Favorable	Unfavorable
31 December 2018				
	235,494	(235,494)	23,166	(23,166)
	Effect on profit or loss		Effect on OCI	
	Favorable	Unfavorable	Favorable	Unfavorable
31 December 2017				
	220,449	(220,449)	15,711	(15,711)

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value (amortised cost) and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. Fair value hierarchy of financial instruments measured at fair value is as disclosed earlier in note 28.

31 December 2018	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
Cash and balances with banks and financial institutions	-	2,440,868	-	2,440,868	2,440,868
Murabaha and wakalah with financial institutions	-	7,217,226	-	7,217,226	7,217,226
Investment in Islamic financing	-	-	24,123,760	24,123,760	24,123,760
Investment securities measured at amortised cost	3,248,905	-	826,169	4,075,074	3,823,699
Other assets	-	-	706,670	706,670	706,670
Total	3,248,905	9,658,094	25,656,599	38,563,598	38,312,223
Financial liabilities					
Customers' deposits	-	-	26,438,275	26,438,275	26,438,275
Due to banks	-	6,548,781	-	6,548,781	6,548,781
Sukuks payable	5,499,603	-	-	5,499,603	5,499,603
Other liabilities	-	-	741,847	741,847	741,847
Total	5,499,603	6,548,781	27,180,122	39,228,506	39,228,506

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

28. KEY ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)**Financial instruments not measured at fair value (continued)**

31 December 2017	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
▲ Financial assets					
Cash and balances with banks and financial institutions	-	3,103,111	-	3,103,111	3,103,111
Murabaha and wakalah with financial institutions	-	3,925,490	-	3,925,490	3,925,490
Investment in Islamic financing	-	-	21,707,375	21,707,375	21,707,375
Investment securities measured at amortised cost	3,470,268	-	587,836	4,058,104	3,862,814
Other assets	-	-	569,133	569,133	569,133
Total	3,470,268	7,028,601	22,864,344	33,363,213	33,167,923
▲ Financial liabilities					
Customers' deposits	-	-	22,318,523	22,318,523	22,318,523
Due to banks	-	4,076,241	4,076,241	4,076,241	4,076,241
Sukuks payable	5,501,743	-	5,501,743	5,501,743	5,501,743
Other liabilities	-	-	746,624	746,624	746,624
Total	5,501,743	4,076,241	32,643,131	32,643,131	32,643,131

Valuation of investment properties

The fair value of investment 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 investment property portfolio annually.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Group has taken the highest and best use fair values for the fair value measurement of its investment properties.

28. KEY ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Financial instruments not measured at fair value (continued)

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
Investment method	<p>Expected market rental growth rate</p> <p>Risk adjusted discount rates</p> <p>Free hold property</p> <p>Free of covenants, third party rights and obligations</p> <p>Statutory and legal validity</p> <p>Condition of the property</p>	<p>The estimated fair value increase / decrease if:</p> <p>Expected market rental growth rate were higher or lower</p> <p>The risk adjusted discount rates were lower / higher</p> <p>The property is not free hold</p> <p>The property is subject to any covenants, rights and obligations</p> <p>The property is subject to any adverse legal notices / judgment</p> <p>The property is subject to any defect / damages</p>
Comparison method	<p>The Comparison approach involves examining and analysing recent market transaction/data and making adjustments to this data to account for differences in location, building area, quality of accommodation, finish, date of sale, view, aspect and other individual characteristics</p>	<p>The estimated fair value increase/decrease if the inputs to the comparison method varies.</p>

29. SEGMENT REPORTING

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

a. Government and corporate

Within this business segment the Bank provides companies, institutions 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, properties held for sale, sukuks issued and other money market activities.

d. Hospitality and brokerage

The Bank through its subsidiaries SNH and SIFS provides hospitality and brokerage services respectively.

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

29. SEGMENT REPORTING (CONTINUED)

For the year ended 31 December 2018:	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Consolidated statement of income:					
Income from Islamic financing	841,075	285,288	196,821	-	1,323,184
Profit expense on sukuk	-	-	(183,539)	-	(183,539)
Investments, fees, commission and other income	128,622	64,671	340,766	-	534,059
Income from subsidiaries	-	-	-	28,229	28,229
Total income	969,697	349,959	354,048	28,229	1,701,933
General and administrative expenses	-	-	-	(31,441)	(31,441)
General and administrative expenses - unallocated	-	-	-	-	(582,805)
Net operating income / (loss)	969,697	349,959	354,048	(3,212)	1,087,687
Provisions- net of recoveries	(51,329)	9,959	(3,802)	8,403	(36,769)
Profit before distribution to depositors	918,368	359,918	350,246	5,191	1,050,918
Distribution to depositors	(376,250)	(44,701)	(119,588)	-	(540,539)
Profit for the year	542,118	315,217	230,658	5,191	510,379
As at 31 December 2018:					
Consolidated statement of financial position:					
Assets					
Segment assets	20,268,758	4,415,718	19,526,966	28,404	44,239,846
Unallocated assets	-	-	-	-	505,641
Total assets	20,268,758	4,415,718	19,526,966	28,404	44,745,487
Liabilities					
Segment liabilities	21,398,300	4,751,121	12,851,609	8,763	39,009,793
Unallocated liabilities	-	-	-	-	348,062
Total liabilities	21,398,300	4,751,121	12,851,609	8,763	39,357,855
For the year ended 31 December 2017:					
Consolidated statement of income:					
Income from Islamic financing	848,315	202,918	59,774	-	1,111,007
Profit expense on sukuk	-	-	(167,763)	-	(167,763)
Investments, fees, commission and other income	101,489	110,851	298,391	-	510,731
Income from subsidiaries	-	-	-	30,585	30,585
Total income	949,804	313,769	190,402	30,585	1,484,560
General and administrative expenses	-	-	-	(30,600)	(30,600)
General and administrative expenses - unallocated	-	-	-	-	(520,145)
Net operating income / (loss)	949,804	313,769	190,402	(15)	933,815
Provisions- net of recoveries	(117,173)	(36,570)	-	4,926	(148,817)
Profit before distribution to depositors	832,631	277,199	190,402	4,911	784,998
Distribution to depositors	(221,172)	(37,485)	(48,667)	-	(307,324)
Profit for the year	611,459	239,714	141,735	4,911	477,674
As at 31 December 2017:					
Consolidated statement of financial position:					
Assets					
Segment assets	19,410,159	2,919,607	15,499,228	29,517	37,858,511
Unallocated assets	-	-	-	-	430,008
Total assets	19,410,159	2,919,607	15,499,228	29,517	38,288,519
Liabilities					
Segment liabilities	17,895,706	4,719,652	9,719,590	14,985	32,349,933
Unallocated liabilities	-	-	-	-	419,306
Total liabilities	17,895,706	4,719,652	9,719,590	14,985	32,769,239
Total liabilities	21,398,300	4,751,121	12,851,609	8,763	39,357,855

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

29. SEGMENT REPORTING (CONTINUED)

31 December 2018	2018							Total
	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other	
Assets								
Cash and balances with banks and financial institutions	2,182,150	3,647	45,391	33,493	175,732	455	-	2,440,868
International murabaha and wakalah with financial institutions	6,482,626	459,125	-	-	-	275,475	-	7,217,226
Investments in Islamic financing	23,152,331	729,282	12	5	934	241,196	-	24,123,760
Investments securities	4,637,793	696,598	-	-	14,600	853,096	18,365	6,220,452
Investment properties	2,318,129	-	-	-	-	-	-	2,318,129
Properties held for sale	658,460	-	-	-	-	-	-	658,460
Other assets	895,478	7,640	-	-	-	4,787	-	907,905
Property and equipment	858,687	-	-	-	-	-	-	858,687
Total assets	41,185,654	1,896,292	45,403	33,498	191,266	1,375,009	18,365	44,745,487
Liabilities								
Customers' deposits	26,438,275	-	-	-	-	-	-	26,438,275
Due to banks	4,047,622	792,827	-	4,157	1,486,439	216,913	823	6,548,781
Sukuks payable	5,499,603	-	-	-	-	-	-	5,499,603
Other liabilities and zakat payable	871,196	-	-	-	-	-	-	871,196
Shareholders' Equity	5,387,632	-	-	-	-	-	-	5,387,632
Total liabilities and shareholder's equity	42,244,328	792,827	-	4,157	1,486,439	216,913	823	44,745,487
Contingent liabilities	2,114,235	-	-	-	1,395	-	-	2,115,630

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

29. SEGMENT REPORTING (CONTINUED)

31 December 2017	2017							Total
	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other	
▲ Assets								
Cash and balances with banks and financial institutions	2,635,276	1,840	9,145	36,198	419,113	1,128	411	3,103,111
International murabaha and wakalah with financial institutions	3,815,300	110,190	-	-	-	-	-	3,925,490
Financing receivables	21,597,173	89,439	-	-	20,727	36	-	21,707,375
Investments securities	3,760,241	-	-	-	503,403	739,835	30,658	5,034,137
Investment properties	2,167,763	-	-	-	-	-	-	2,167,763
Properties held for sale	568,078	-	-	-	-	-	-	568,078
Other assets	922,436	800	-	-	28	-	-	923,264
Property and equipment	859,301	-	-	-	-	-	-	859,301
Total assets	36,325,568	202,269	9,145	36,198	943,271	740,999	31,069	38,288,519
▲ Liabilities								
Customers' deposits	22,318,523	-	-	-	-	-	-	22,318,523
Due to banks	3,496,290	-	-	-	579,555	396	-	4,076,241
Sukuks payable	5,501,743	-	-	-	-	-	-	5,501,743
Other liabilities and zakat payable	872,732	-	-	-	-	-	-	872,732
Shareholders' Equity	5,519,280	-	-	-	-	-	-	5,519,280
Total liabilities and shareholder's equity	37,708,568	-	-	-	579,555	396	-	38,288,519
Contingent liabilities	2,209,057	-	-	-	1,463	-	-	2,210,520

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

30. CONTINGENCIES AND COMMITMENTS

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	2018	2017
a) Letter of credit - by sector:		
Corporate	129,188	220,964
Government	17,652	2,787
	146,840	223,751
b) Letter of guarantee – by sector:		
Banks	4,148	1,545
Corporate	1,777,787	1,818,660
Government	8,916	93
High net worth individual	28,493	23,586
Retail	15,923	10,013
Non-banking financial institution	133,523	132,872
	1,968,790	1,986,769
c) Capital commitments		
Property and equipment	48,701	9,015
Other real estate commitments	264,643	159,936
	313,344	168,951

Others

The Bank has also issued a financial guarantee of AED 5 million (2017: AED 5 million) to the Department of Economic Development against a real estate leasing and management license for ASAS real estate.

In addition, a financial guarantee of AED 230 million which comprises of AED 100 million has been issued to Abu Dhabi securities exchange, AED 100 million to Dubai Financial Market and AED 30 million to the Central Bank of UAE against conducting brokerage operations for Sharjah Islamic Financial Services (2017: AED 230 million).

The Bank receives legal claims arising in the normal course of business. The Bank considers none of these matters as material either individually or in aggregate. Where appropriate, the Bank recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The Bank seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations from time to time, the outcome of which are generally difficult to predict and can be material.

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

31. 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 the management are not significantly different from those that could have been obtained from third parties.

At the reporting date, such significant balances include:

2018				
Statement of financial position	Key management personnel	Major shareholders	Other related parties	Total
Investment in Islamic financing	775,502	3,336,088	3,539,686	7,651,276
Customers deposits	(174,716)	(665,593)	(2,918,134)	(3,758,443)
Contingent liabilities – off balance sheet	114,650	29,541	-	144,191
Statement of profit or loss For the year ended 31 December 2018				
Income from Islamic financing	18,432	151,011	131,637	301,080
Depositors' share of profit	(494)	(6,703)	(26,495)	(33,692)
2017				
Statement of financial position	Key management personnel	Major shareholders	Other related parties	Total
Investment in Islamic financing	630,914	4,288,504	3,422,199	8,341,617
Customers deposits	(38,911)	(195,830)	(3,664,669)	(3,899,410)
Contingent liabilities – off balance sheet	120,073	3,012	-	123,085
Statement of profit or loss For the year ended 31 December 2017				
Income from Islamic financing	26,406	127,490	98,655	252,551
Depositors' share of profit	(286)	(2,512)	(10,594)	(13,392)

Key management compensation includes salaries and other short term benefits of AED 25.3 million in 2018 (2017: AED 23.5 million) and post-employment benefits of AED 2.8 million in 2018 (2017: AED 1.6 million).

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

32. SOCIAL CONTRIBUTIONS

The Bank has made social contributions of AED 60.9 million (2017: AED 54.5 million) from the zakat fund. Zakat fund is calculated in accordance with note 3(n).

The Bank during the year has also made a social contribution of AED 3.1 million (2017: AED 2.8 million) as donations and charities. These donations and charities are the amounts collected from the customers of the Bank as approved and defined by Bank's Fatwa and Shari'a Supervisory Board.

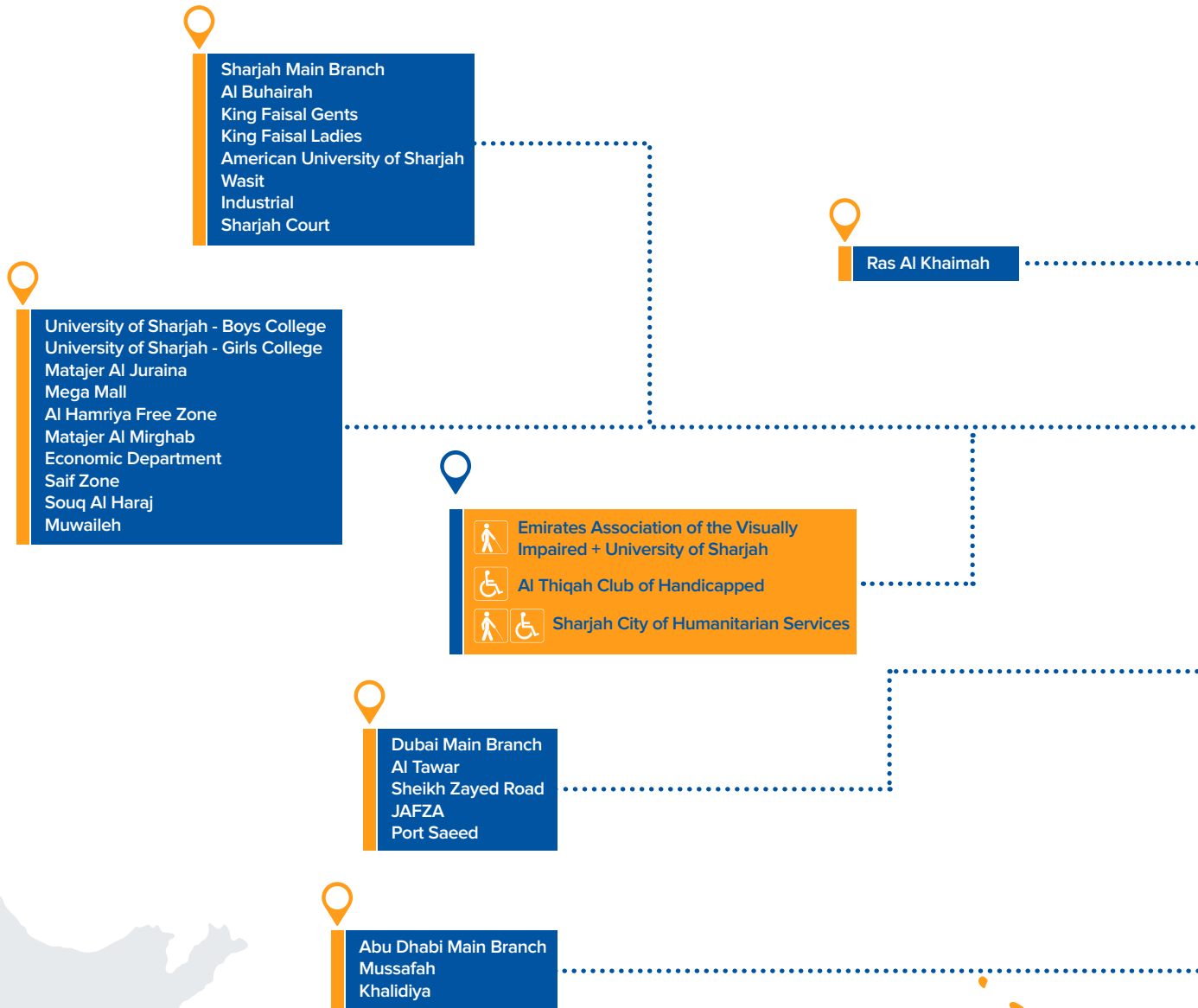
33. COMPARATIVES FIGURES

Certain prior year comparatives have been reclassified in order to conform to current year's presentation.





BRANCH
▲ **NETWORK**



Sharjah Main Branch
 Al Buhairah
 King Faisal Gents
 King Faisal Ladies
 American University of Sharjah
 Wasit
 Industrial
 Sharjah Court

University of Sharjah - Boys College
 University of Sharjah - Girls College
 Matajer Al Juraina
 Mega Mall
 Al Hamriya Free Zone
 Matajer Al Mirghab
 Economic Department
 Saif Zone
 Souq Al Haraj
 Muwaileh

Ras Al Khaimah

Emirates Association of the Visually Impaired + University of Sharjah
 Al Thiqah Club of Handicapped
 Sharjah City of Humanitarian Services

Dubai Main Branch
 Al Tawar
 Sheikh Zayed Road
 JAFZA
 Port Saeed

Abu Dhabi Main Branch
 Mussafah
 Khalidiya



The first ATM in the Middle East for the visually impaired



The first ATM in the country and the region for people with motor disabilities.



The first ATM in the Middle East to serve both the Visually impaired and the physically disabled.

These devices are a part of SIB's community initiative to integrate people with disabilities into the mainstream and help them meet their financial obligations. Equipped with the latest technology, these devices bring electronic banking services within the reach of people with disabilities who can independently transact without needing any assistance.

Dibba
Fujairah
Al Dhaid

Kalba
Khorfakkan

Al Ain Main Branch
Hazza bin Zayed

06-5999999

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عام
زاييد



YEAR OF
ZAYED







مصرف الشارقة الإسلامية
Sharjah Islamic Bank