SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) 30 SEPTEMBER 2018

SHARJAH ISLAMIC BANK

Directors' Report

The Directors have pleasure in presenting their report together with the condensed consolidated interim financial statements of SHARJAH ISLAMIC BANK ("the Bank") and its subsidiaries (together referred as the "Group") for the nine -month period ended 30 September 2018.

Financial highlights

The Group has reported a profit of AED 397.7 million for the nine-month period ended 30 September 2018 compared to AED 360.0 million for the corresponding prior year period, an increase of 10.5%.

Compared to December 2017, total assets increased by AED 5.7 billion to reach AED 44.0 billion, an increase of 14.9%. Investments in Islamic financing increased by 5.7% (AED 1.2 billion) to reach AED 22.9 billion and customer deposits experienced a growth of 21.2% (AED 4.7 billion) to reach AED 27.0 billion.

Directors:-

H.E. Abdul Rahman Mohammed Nasser Al Owais	Chairman
Mr. Ahmed Mohamed Obaid Al Shamsi	Vice Chairman
Mr. Othman Mohammed Sharif Zaman	Member
Mr. Ahmed Ghanim Al Suwaidi	Member
Mr. Ali Bin Salim Al Mazrou	Member
Mr. Emad Yousef Abdulla Saleh Al Monayea	Member
Mr. Mohammad N. Al Fouzan	Member

Abdul Rahman Mohammed Nasser Al Owais
Chairman
18 October 2018

Review report on condensed consolidated interim financial information to the Directors of Sharjah Islamic Bank PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Sharjah Islamic Bank ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 September 2018 and the related condensed consolidated interim statements of profit or loss and other comprehensive income for the three-month and nine-month periods then ended and the condensed consolidated statements of cash flows and changes in equity for the nine-month period then ended and significant changes in accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
18 October 2018

Jacques E Fakhoury
Registered Auditor Number 379
Place: Dubai, United Arab Emirates

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018
(Currency: Thousands of U.A.E Dirhams)

	Notes	**30 September 2018 Un-audited**	**31 December 2017 Audited**
Assets			
Cash and balances with banks and financial institutions	*5*	**2,507,023**	3,103,111
Murabaha and wakalah with financial institutions	*6*	**7,464,262**	3,925,490
Investment in Islamic financing	*7*	**22,935,131**	21,707,375
Investment securities	*8*	**6,397,226**	5,034,137
Investment properties		**2,190,454**	2,167,763
Properties held-for-sale		**683,408**	568,078
Other assets		**951,448**	923,264
Property and equipment		**852,288**	859,301
Total assets		**43,981,240**	**38,288,519**
Liabilities			
Customers deposits	*9*	**27,041,163**	22,318,523
Due to banks		**5,335,118**	4,076,241
Sukuk payable	*10*	**5,498,791**	5,501,743
Other liabilities		**761,499**	808,838
Zakat payable		**6,301**	63,894
Total liabilities		**38,642,872**	**32,769,239**
Shareholders' equity			
Share capital	*11*	**2,934,855**	2,934,855
Legal reserve		**1,378,187**	1,377,902
Statutory reserve		**89,008**	89,008
Fair value reserve		**(82,852)**	(39,488)
Retained earnings		**1,019,170**	1,157,003
Net shareholders' equity		**5,338,368**	**5,519,280**
Total liabilities and shareholders' equity		**43,981,240**	**38,288,519**

These condensed consolidated interim financial statements were authorised for issue in accordance with a resolution of the Directors on 18 October 2018.

for /

Abdul Rahman Mohammed Nasser Al Owais Chairman	Mohammed Ahmed Abdullah Chief Executive Officer

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	**2017**	**2018**	**2017**
Income from Islamic financing	**340,398**	264,228	**945,644**	821,365
Profit expense on sukuk	**(47,797)**	(41,839)	**(135,911)**	(125,625)
Investment, fees, commission and other income	**145,570**	122,625	**426,975**	370,119
Income from subsidiaries	**3,571**	3,635	**19,248**	21,135
Total income	**441,742**	**348,649**	**1,255,956**	**1,086,994**
General and administrative expenses	**(150,545)**	(132,195)	**(440,590)**	**(390,474)**
Net operating income	**291,197**	**216,454**	**815,366**	**696,520**
Provisions - net of recoveries	**(25,305)**	(47,493)	**(50,351)**	**(113,070)**
Profit before distribution to depositors	**265,892**	**168,961**	**765,015**	**583,450**
Distribution to depositors	**(151,180)**	(81,841)	**(367,313)**	**(223,461)**
Profit for the period	**114,712**	**87,120**	**397,702**	**359,989**
(Attributable to the shareholders of the Bank)				
Earnings per share (U.A.E. Dirhams)	**0.04**	**0.03**	**0.14**	**0.13**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (Un-audited)

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	**2017**	**2018**	**2017**
Profit for the period	**114,712**	87,120	**397,702**	359,989
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net change in fair value reserve	**(26,466)**	2,732	**(43,364)**	(2,942)
Total comprehensive income for the period	**88,246**	**89,852**	**354,338**	357,047

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

	Nine month period ended 30 September 2018 Un-audited	Nine month period ended 30 September 2017 Un-audited
Cash flows from operating activities		
Profit for the period	**397,702**	359,989
Adjustments for:		
- Depreciation	**31,153**	30,230
- Amortisation of sukuk issuance costs	**(2,952)**	2,804
- Provision charge for the period	**50,351**	113,070
- Gain on sale of properties held-for-sale	**(4,153)**	(17,975)
- Gain on sale of investment properties	**(21,552)**	-
Operating profit before changes in operating assets and liabilities	**450,549**	**488,118**
Changes in:		
- Reserve with UAE Central Bank	**(10,136)**	(315,324)
- Murabaha and wakalah with financial institutions	**(2,769,102)**	769,689
- Investments in Islamic financing	**(1,562,050)**	(3,328,681)
- Other assets	**(26,193)**	(8,974)
- Customers' deposits	**4,722,640**	3,754,716
- Due to banks	**2,051,791**	332,179
- Zakat payable	**(57,593)**	(70,945)
- Other liabilities	**(52,589)**	(5,481)
Net cash from operating activities	2,747,317	**1,615,297**
Cash flows from investing activities		
Acquisition of properties and equipment	**(24,140)**	(21,392)
Acquisition of investment properties	**(115,869)**	(11,836)
Disposal of investment properties	**114,730**	51,501
Acquisition of properties held-for-sale	**(125,482)**	(42,644)
Disposal of properties held-for-sale	**14,304**	51,592
Investment securities, net	**(1,419,298)**	(814,646)
Net cash used in investing activities	**(1,555,755)**	**(787,425)**
Cash flows from financing activities		
Issuance of sukuk	**1,865,000**	-
Repayment of sukuk	**(1,865,000)**	-
Cash dividend	**(234,789)**	-
Net cash used in financing activities	**(234,789)**	-
Net increase in cash and cash equivalents	**956,773**	**827,872**
Cash and cash equivalents at the beginning of the period	**2,171,297**	**2,037,425**
Cash and cash equivalents at the end of the period	**3,128,070**	**2,865,297**
Cash and cash equivalents comprise of:		
Cash and balances with banks and financial institutions	**768,968**	1,095,410
Murabaha and wakalah with financial institutions	**4,089,529**	4,358,551
Due to banks	**(1,730,427)**	(2,588,664)
	3,128,070	**2,865,297**

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (un-audited)
(Currency: Thousands of U.A.E. Dirhams)

	ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK					
	Share capital	**Statutory reserves**	**Legal reserves**	**Fair value reserve**	**Retained earnings**	**Total shareholders' equity**
As at 1 January 2017 (Audited)	**2,425,500**	**89,008**	**1,330,626**	**(29,492)**	**1,040,602**	**4,856,244**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	359,989	**359,989**
Other comprehensive income						
Net change in fair value reserve	-	-	-	(2,942)	-	**(2,942)**
Fair value adjustment				(3,495)	3,495	-
Total comprehensive income for the period	-	-	-	**(6,437)**	**363,484**	**357,047**
Transactions with owners recorded directly in equity						
Bonus share issue (note 16)	242,550	-	-	-	(242,550)	-
Board of directors' fees - paid		-	-	-	(5,250)	(5,250)
Total transactions with owners	**242,550**	**-**	**-**	**-**	**(247,800)**	**(5,250)**
As at 30 September 2017 (Un-audited)	**2,668,050**	**89,008**	**1,330,626**	**(35,929)**	**1,156,286**	**5,208,041**
As at 1 January 2018 (Audited)	**2,934,855**	**89,008**	**1,377,902**	**(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**	**89,008**	**1,377,902**	**(39,488)**	**861,792**	**5,224,069**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	**397,702**	**397,702**
Other comprehensive income						
Net change in fair value reserve	-	-	-	**(43,364)**	-	**(43,364)**
Total comprehensive income for the period	-	-	-	**(43,364)**	**397,702**	**354,338**
Transactions with owners recorded directly in equity						
Dividends paid	-	-	-	-	**(234,789)**	**(234,789)**
Transfer to legal reserve	-	-	**285**	-	**(285)**	-
Board of directors' fees - paid	-	-	-	-	**(5,250)**	**(5,250)**
Total transactions with owners	-	-	285	-	(240,324)	(240,039)
As at 30 September 2018 (Un-audited)	**2,934,855**	**89,008**	**1,378,187**	**(82,852)**	**1,019,170**	**5,338,368**

The accompanying notes form an integral part of this condensed consolidated interim financial statement.

1. Legal status and activities

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and is listed on the Abu Dhabi Securities Exchange. The Bank is engaged in banking, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulations of the UAE Central Bank, which are carried out through its 32 branches (2017: 32 branches) established in the United Arab Emirates.

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

The condensed consolidated interim financial statements of the Bank comprise the Bank and its fully owned subsidiaries incorporated in the United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Services LLC (SIFS), 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 office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Basis of preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Selected explanatory notes, particularly in relation to the adoption of IFRS 9, are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These condensed consolidated interim financial statements do not include all of the information required for a full set of annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group as at and for the year ended 31 December 2017, other than change in accounting policy arising from the adoption of IFRS 9.

b) Basis of measurement

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

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

2. Basis of preparation *(continued)*

c) Functional and reporting currency

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

d) Key accounting estimates & judgments

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

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

Measurement of the expected credit loss allowance

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

A number of significant judgements are also required in applying the accounting requirements for measuring ECL ("expected credit loss"), such as:

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

3. Summary of significant accounting policies

The accounting policies applied by the Group in preparation of these condensed consolidated interim financial statements are consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2017 except for the adoption of new IFRSs which became effective for the period beginning 1 January 2018.

Changes in accounting policies

The Group has adopted IFRS 9, as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements. The Group had already adopted the classification requirements of IFRS 9 in 2012 and as such there has been no material impact on opening equity as at 1 January 2018 with regards to changes in classification requirements of IFRS 9. A sukuk instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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 on the principal amount outstanding.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

The adoption of IFRS 9 has resulted in changes in the accounting policies for impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

The consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period note's disclosures repeat those disclosures made in the prior period.

I. Impairment

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. 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 Bank 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.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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:

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 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

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

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Experienced credit judgment

The Bank's ECL allowance methodology, requires the Bank 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, without any recourse to the assumptions. 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 policy on the write-off of investment in Islamic financing remains unchanged.

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 modification will 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.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

II. 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	1,175,854	283,943	**1,459,797**
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**
	1,251,093	**295,211**	**1,546,304**

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

III. Adjustment to retained earnings

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

	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**

4. Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the annual consolidated financial statements as at and for the year ended 31 December 2017; except as disclosed below:

Credit risk is the risk of suffering financial loss, should any of the Group's customers fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from investments in Islamic financing, loan commitments arising from such lending activities, trade finance and treasury activities. The Group is also exposed to other credit risks arising from investments in Islamic Sukuk.

Credit risk is the single largest risk from the Group's business; therefore, management carefully manages its exposure to credit risk. The credit risk management and control are centralised in a risk management department which reports regularly to the Enterprise Risk Management Committee.

4. Financial risk management

a) Maximum exposure to credit risk

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

	30 September 2018 ECL Staging				2017
	Stage 1 12 month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**	Total
Balances with banks	**317,167**	-	-	**317,167**	744,830
Loss allowance	(7)	-	-	(7)	-
Carrying amount	**317,160**	-	-	**317,160**	**744,830**
Murabaha and wakalah with financial institutions	**7,464,889**	-	-	**7,464,889**	3,925,490
Loss allowance	(627)	-	-	(627)	-
Carrying amount	**7,464,262**	-	-	**7,464,262**	**3,925,490**
Investments in Islamic financing	**21,104,042**	**2,103,440**	**1,240,622**	**24,448,104**	22,883,229
Loss allowance	**(141,404)**	**(336,130)**	**(984,332)**	**(1,461,866)**	(1,130,436)
Profit in suspense	-	-	(51,107)	(51,107)	(45,418)
Carrying amount	**20,962,638**	**1,767,310**	**205,183**	**22,935,131**	**21,707,375**
Investment securities measured at amortised cost	**3,976,528**	-	**25,607**	**4,002,135**	3,882,019
Loss allowance	(5,104)	-	(24,327)	(29,431)	(19,205)
Carrying amount	**3,971,424**	-	**1,280**	**3,972,704**	**3,862,814**
Other assets (excluding non-financial assets)	**614,897**	**6,051**	**43,434**	**664,382**	625,167
Loss allowance	(7,350)	(28)	(43,434)	(50,812)	(56,034)
Carrying amount	607,547	6,023	-	613,570	569,133
Total credit risk exposures relating to on-balance sheet assets	33,323,031	1,773,333	206,463	35,302,827	30,809,642
Letter of credit and guarantee	**790,685**	**9,392**	**200**	**800,267**	511,685
Loss allowance	(3,095)	(468)	-	(3,563)	-
Credit risk exposures relating to off-balance sheet assets	787,590	8,924	200	796,714	511,685
	34,110,621	1,782,257	206,663	36,099,541	31,321,327

4. Financial risk management (continued)

b) Capital adequacy ratio

The capital adequacy ratio is based on Basel III and UAE Central Bank rules and guidelines:

	Basel III	
	30 September 2018 Un-audited	**31 December 2017 Audited**
Total tier 1 capital base	**5,318,229**	5,301,061
Total tier 2 capital base	**358,173**	282,330
Risk weighted assets:		
Credit risk	**28,653,854**	25,745,411
Market risk	**153,787**	263,612
Operational risk	**2,234,511**	2,234,511
Risk weighted assets	**31,042,152**	**28,243,534**
Tier 1 ratio	**17.13%**	**18.77%**
Capital adequacy ratio	18.29%	**19.77%**

5. Cash and balances with banks and financial institutions

Cash		**429,685**	449,397
Statutory deposit with CBUAE		**1,738,054**	1,727,918
Due from banks	*5.1*	**339,284**	925,796
		2,507,023	**3,103,111**

5.1 Due from banks includes the current account balance with the CBUAE amounting to AED 22.1 million *(31 December 2017: AED 180.9 million).*

6. Murabaha and wakalah with financial institutions

Murabaha		**1,028,113**	91,968
Wakala arrangements	*6.1*	**6,436,776**	3,833,522
Less: Loss allowance		**(627)**	-
		7,464,262	**3,925,490**

6.1 Wakala arrangements with financial institutions includes' Islamic certificates of deposit with CBUAE amounting AED 1,900 million *(31 December 2017: AED 800 million).*

7. Investments in Islamic financing

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

	30 September 2018 Un-audited	31 December 2017 Audited
Vehicle murabaha	**289,530**	316,045
Goods murabaha	**6,671,992**	6,075,229
Real estate murabaha	**123,674**	169,351
Other murabaha receivable	**407,737**	441,944
Syndicate murabaha	**1,201,099**	794,367
Gross murabaha financing	**8,694,032**	**7,796,936**
Less: Deferred profit	**(706,157)**	(683,936)
Net murabaha financing	**7,987,875**	**7,113,000**
Ijara financing	**14,324,396**	14,075,838
Qard hasan	**529,073**	425,111
Credit card receivables	**73,822**	54,705
Istisna	**1,532,938**	1,214,575
Total investments in Islamic financing	**24,448,104**	**22,883,229**
Less: Loss allowance for investments in Islamic financing	**(1,461,866)**	(1,130,436)
Less: Profit in suspense	**(51,107)**	(45,418)
	22,935,131	21,707,375

8. Investment securities

Financial assets at FVTPL	**46,725**	104,434
Financial assets at FVOCI	**2,377,797**	1,066,889
Financial assets measured at amortised cost	**4,002,135**	3,882,019
Less: Loss allowance on amortised cost	**(29,431)**	(19,205)
	6,397,226	**5,034,137**

9. Customers' deposits

Current accounts	**7,685,033**	8,103,493
Saving accounts	**2,289,789**	2,298,304
Watany / call accounts	**545,976**	799,286
Time deposits	**16,052,128**	10,661,125
Margins	**468,237**	456,315
	27,041,163	**22,318,523**

10. Sukuk payable

Name of issuer	Maturity date	30 September 2018 Un-audited		31 December 2017 Audited	
		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	**1,835,022**	2.843%	1,834,268	2.843%
SIB Sukuk 2021	8 September 2021	**1,832,530**	3.084%	1,831,513	3.084%
SIB Sukuk 2023	17 April 2023	**1,831,239**	4.231%	-	-
Total		**5,498,791**		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 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 by the Bank. 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 proceeds 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).

11. Share capital

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

	30 September 2018 Un-audited		31 December 2017 Audited	
	No. of shares	Value	No. of shares	Value
Share capital	**2,934,855,000**	**2,934,855**	2,934,855,000	2,934,855

12. Segment reporting

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

a) Government and corporate

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

b) Retail

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

12. Segment reporting *(continued)*

c) Investment and treasury

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

d) Hospitality and brokerage

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

Consolidated statement of profit or loss: For the nine-month period ended 30 September 2018 (un-audited)	**Corporate and Government**	**Retail**	**Investment and Treasury**	**Hospitality and Brokerage**	**Total**
Income from Islamic financing	**603,978**	**205,039**	**136,627**	**-**	**945,644**
Profit expense on sukuk	**-**	**-**	**(135,911)**	**-**	**(135,911)**
Investment, fees, commission and other income	**73,822**	**46,949**	**306,204**	**-**	**426,975**
Income from subsidiaries	**-**	**-**	**-**	19,248	**19,248**
Total income	**677,800**	**251,988**	**306,920**	**19,248**	**1,255,956**
General and administrative expenses	**(220,424)**	(78,388)	(117,950)	(23,828)	**(440,590)**
Net operating income	**457,376**	**173,600**	**188,970**	**(4,580)**	**815,366**
Provisions - net of recoveries	**(3,902)**	**(46,058)**	**(392)**	**1**	**(50,351)**
Profit before distribution to depositors	**453,474**	**127,542**	**188,578**	**(4,579)**	**765,015**
Distribution to depositors	**(255,507)**	**(32,066)**	**(79,740)**	**-**	**(367,313)**
Profit for the period	197,967	95,476	108,838	(4,579)	**397,702**
Consolidated statement of financial position:					
As at 30 September 2018 (un-audited)					
Assets					
Segment assets	**18,197,968**	**5,409,358**	**19,151,813**	**712,586**	**43,471,725**
Unallocated assets	**-**	**-**	**-**	**-**	**509,515**
Total assets	**18,197,968**	**5,409,358**	**19,151,813**	**712,586**	**43,981,240**
Liabilities					
Segment liabilities	**22,102,832**	**4,753,496**	**11,483,261**	**28,336**	**38,367,925**
Unallocated liabilities	**-**	**-**	**-**	**-**	**274,947**
Total liabilities	22,102,832	4,753,496	11,483,261	28,336	**38,642,872**

12. Segment reporting *(continued)*

	Corporate and Government	Retail	Investment and Treasury	Hospitality and Brokerage	Total
Consolidated statement of profit or loss: For the nine-month period ended 30 September 2017 (un-audited)					
Income from Islamic financing	593,388	141,826	86,151	-	**821,365**
Profit expense on sukuk	-	-	(125,625)	-	**(125,625)**
Investment, fees, commission and other income	69,357	73,512	227,250	-	**370,119**
Income from subsidiaries	-	-	-	21,135	**21,135**
Total income	**662,745**	**215,338**	**187,776**	**21,135**	**1,086,994**
General and administrative expenses	(228,884)	(74,368)	(64,850)	(22,372)	**(390,474)**
Net operating income	**433,861**	**140,970**	**122,926**	**(1,237)**	**696,520**
Provisions- net of recoveries	(92,720)	(20,350)	-	-	**(113,070)**
Profit before distribution to depositors	**341,141**	**120,620**	**122,926**	**(1,237)**	**583,450**
Distribution to depositors	(161,590)	(27,887)	(33,984)	-	**(223,461)**
Profit for the period	179,551	92,733	88,942	(1,237)	**359,989**
Consolidated statement of financial position: As at 31 December 2017 (audited)					
Assets					
Segment assets	19,410,159	2,919,607	14,849,228	679,517	37,858,511
Unallocated assets	-	-	-	-	430,008
Total assets	**19,410,159**	**2,919,607**	**14,849,228**	**679,517**	**38,288,519**
Liabilities					
Segment liabilities	17,895,706	4,719,652	9,587,213	147,362	32,349,933
Unallocated liabilities	-	-	-	-	419,306
Total liabilities	17,895,706	4,719,652	9,587,213	147,362	32,769,239

13. Related parties

In the normal course of business, the Group enters into various transactions with enterprises and key management personnel which falls within the definition of related parties as defined in IAS 24. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in the opinion of management, are not significantly different from those that could have been obtained from third parties.

13. Related parties *(continued)*

At the reporting date, such significant balances include:

	30 September 2018			
Statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
Financing and Ijarah receivables	**730,222**	**3,471,972**	**2,802,829**	**7,005,023**
Customers deposits	**(136,657)**	**(389,384)**	**(2,698,478)**	**(3,224,519)**
Contingent liabilities – off balance sheet	**115,476**	**32,221**	-	**147,697**
Statement of profit or loss for the period ended 30 September 2018				
Income from Islamic financing	**21,506**	**93,119**	**114,129**	**228,754**
Depositors' share of profit	**(359)**	**(4,317)**	**(18,612)**	**(23,288)**

	31 December 2017			
Statement of financial position	**Key management personnel**	**Major shareholders**	**Other related parties**	**Total**
Financing and Ijarah receivables	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 period ended 30 September 2017				
Income from Islamic financing	19,479	88,643	74,174	**182,296**
Depositors' share of profit	(159)	(1,566)	(8,115)	**(9,840)**

Key management compensation includes salaries and other short term benefits of AED 18.9 million for the nine month period ended 30 September 2018 *(30 September 2017: AED 17.5 million)* and post-employment benefits of AED 2.5 million for the nine month period ended 30 September 2018 *(30 September 2017: AED 1.3 million)*.

No impairment loss has been recognised against balances outstanding with key management personnel and other related parties.

14. Fair value measurement

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

	Level 1	Level 2	Level 3	Total
At 30 September 2018 (Un-audited)				
Financial assets				
FVTPL – investment securities	**9,911**	-	**36,814**	**46,725**
FVTOCI – investment securities	**2,146,139**	-	231,658	**2,377,797**
	2,156,050	-	**268,472**	**2,424,522**
Non-financial assets				
Investment properties at fair value	-	-	**2,190,454**	**2,190,454**
At 31 December 2017 (Audited)				
Financial assets				
FVTPL – investment securities	67,704	-	36,730	**104,434**
FVTOCI – investment securities	909,777	-	157,112	**1,066,889**
	977,481	-	**193,842**	**1,171,323**
Non-financial assets				
Investment properties at fair value	-	-	2,167,763	2,167,763

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

	30 September 2018		31 December 2017	
Financial assets	**FVTPL**	**FVTOCI**	**FVTPL**	**FVTOCI**
Balance as at 1 January	**36,730**	**157,112**	-	100,234
Fair value movement	**84**	**1,086**	-	(9,236)
Addition	-	**73,460**	36,730	66,114
Closing balance	**36,814**	**231,658**	**36,730**	**157,112**

Non-financial assets	**30 September 2018**	**31 December 2017**
Balance at the beginning of the period	**2,167,763**	2,124,359
Additions	**115,869**	32,850
Transfer from held-for-sale	-	77,372
Transfer to property and equipment	-	(16,696)
Disposal	**(93,178)**	(56,406)
Revaluation gain	-	6,284
Balance at the end of the period	**2,190,454**	2,167,763

14. Fair value measurement (continued)

The valuation techniques and the inputs used in determining the fair values of level 3 assets is consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2017.

15. Interim measurement

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

16. 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 – 1 bonus share for every 10 shares held, amounting to AED 242.6 million for the year ended 31 December 2016).

17. Contingencies

	30 September 2018 Un-audited	31 December 2017 Audited
Letters of credit	**186,824**	223,752
Letters of guarantee	**2,346,715**	1,986,769

All commitments to extend credits are revocable by the Bank without any recourse.

18. Comparatives

Certain prior period/year comparatives have been reclassified to conform to the current period's presentation.