

Bank of Sharjah P.J.S.C.

**Review report and
Condensed consolidated interim financial information
for the nine-month period ended 30 September 2018**

Bank of Sharjah P.J.S.C.

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

The Shareholders
Bank of Sharjah P.J.S.C.

Introduction

We have reviewed the accompanying 30 September 2018 condensed consolidated interim financial information of Bank of Sharjah P.J.S.C. ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprises:

- the condensed consolidated interim statement of financial position as at 30 September 2018;
- the condensed consolidated interim statement of profit or loss for the three-month and nine-month periods ended 30 September 2018;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2018;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2018;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2018; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 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 condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

Condensed consolidated interim statement of financial position

As at

| | Note | 30 September 2018 (unaudited) AED'000 | 31 December 2017 (audited) AED'000 |
|--|------|--|---|
| ASSETS | | | |
| Cash and balances with central banks | 7 | 3,594,936 | 5,587,606 |
| Deposits and balances due from banks | 8 | 743,237 | 503,218 |
| Reverse-repo placements | 9 | 1,763,836 | 1,867,798 |
| Loans and advances, net | 10 | 16,072,988 | 17,476,329 |
| Other financial assets measured at fair value | 11 | 1,019,558 | 813,286 |
| Other financial assets measured at amortised cost | 11 | 639,440 | 794,585 |
| Investment properties | | 611,527 | 584,858 |
| Goodwill and other intangibles | | 417,532 | 421,966 |
| Other assets | 12 | 4,092,770 | 2,192,732 |
| Property and equipment | | 261,028 | 268,822 |
| Total assets | | 29,216,852 | 30,511,200 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Customers' deposits | 13 | 19,694,066 | 21,630,471 |
| Deposits and balances due to banks | 14 | 417,811 | 87,122 |
| Other liabilities | 15 | 1,409,963 | 1,018,866 |
| Issued bonds | 16 | 3,605,215 | 3,706,810 |
| Total liabilities | | 25,127,055 | 26,443,269 |
| Equity | | | |
| Capital and reserves | | | |
| Share capital | | 2,100,000 | 2,100,000 |
| Statutory reserve | | 1,050,000 | 1,050,000 |
| Contingency reserve | | 600,000 | 560,000 |
| General reserve | | 100,000 | 100,000 |
| Investment fair value reserve | | (395,677) | (400,782) |
| Retained earnings | | 624,416 | 647,251 |
| Equity attributable to equity holders of the Bank | | 4,078,739 | 4,056,469 |
| Non-controlling interests | | 11,058 | 11,462 |
| Total equity | | 4,089,797 | 4,067,931 |
| Total liabilities and equity | | 29,216,852 | 30,511,200 |



.....
Mr. Ahmed Abdalla Al Noman
Chairman



.....
Mr. Varouj Nerguizian
General Manager

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

Bank of Sharjah P.J.S.C.

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**Condensed consolidated interim statement of profit or loss (unaudited)
for the nine-month period ended 30 September**

| | Note | Three-month period ended 30 September | | Nine-month period ended 30 September | |
|---|------|--|-----------|---|-----------|
| | | 2018 | 2017 | 2018 | 2017 |
| | | AED'000 | AED'000 | AED'000 | AED'000 |
| Interest income | | 300,648 | 292,458 | 936,359 | 851,754 |
| Interest expense | | (186,998) | (181,883) | (588,470) | (499,382) |
| Net interest income | | 113,650 | 110,575 | 347,889 | 352,372 |
| Net fee and commission income | | 33,803 | 77,373 | 90,825 | 129,156 |
| Exchange profit | | 3,250 | 5,019 | 11,303 | 15,288 |
| Income on investments | | 17,096 | 14,431 | 58,654 | 26,140 |
| Other income | | 3,684 | 6,397 | 11,088 | 19,302 |
| Operating income | | 171,483 | 213,795 | 519,759 | 542,258 |
| Net impairment loss on financial assets | | 11,500 | (25,040) | 18,418 | (53,414) |
| Net operating income | | 182,983 | 188,755 | 538,177 | 488,844 |
| General and administrative expenses | | (77,914) | (71,747) | (220,922) | (212,089) |
| Amortisation of intangible assets | | (1,478) | (1,478) | (4,433) | (4,433) |
| Profit before taxes | | 103,591 | 115,530 | 312,822 | 272,322 |
| Income tax expense – overseas | | (2,769) | (2,712) | (11,936) | (7,042) |
| Net Profit | | 100,822 | 112,818 | 300,886 | 265,280 |
| Attributable to: | | | | | |
| Equity holders of the Bank | | 100,955 | 109,885 | 301,290 | 257,687 |
| Non-controlling interests | | (133) | 2,933 | (404) | 7,593 |
| Profit for the period | | 100,822 | 112,818 | 300,886 | 265,280 |
| Basic earnings per share (AED) | 18 | 0.048 | 0.052 | 0.143 | 0.123 |

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

**Condensed consolidated interim statement of profit and loss and other comprehensive income
(unaudited) for the nine-month period ended 30 September**

| | Three-month period ended 30 September | | Nine-month period ended 30 September | |
|---|--|----------|---|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Profit for the period | 100,882 | 112,818 | 300,886 | 265,280 |
| Other comprehensive (loss)/ income items <i>Items that will not be reclassified subsequently to condensed consolidated interim statement of profit or loss:</i> | | | | |
| Net changes in fair value of financial assets measured at fair value through other comprehensive income | (54,293) | 17,071 | (31,473) | (139,394) |
| Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk | (20,005) | (13,400) | 36,578 | (53,889) |
| Total other comprehensive income/ (loss) for the period | (74,298) | 3,671 | 5,105 | (193,283) |
| Total comprehensive income for the period | 26,584 | 116,489 | 305,991 | 71,997 |
| Attributable to: | | | | |
| Equity holders of the Bank | 26,717 | 113,556 | 306,395 | 64,389 |
| Non-controlling interests | (133) | 2,933 | (404) | 7,608 |
| Total comprehensive income for the period | 26,584 | 116,489 | 305,991 | 71,997 |

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

**Condensed consolidated interim statement of changes in equity (unaudited)
for the nine-month period ended 30 September**

| | Share capital AED'000 | Statutory reserve AED'000 | Contingency reserve AED'000 | General reserve AED'000 | Changes in fair value reserve AED'000 | Retained earnings AED'000 | Total equity attributable to equity holders of the Bank AED'000 | Non- controlling interests AED'000 | Total equity AED'000 |
|--|-----------------------------|---------------------------------|-----------------------------------|-------------------------------|--|---------------------------------|--|---|----------------------------|
| Balance at 1 January 2017 (audited) | 2,100,000 | 1,050,000 | 510,000 | 100,000 | 22,836 | 606,035 | 4,388,871 | 210,857 | 4,599,728 |
| Profit for the period | - | - | - | - | - | 257,687 | 257,687 | 7,593 | 265,280 |
| Reclassification on disposal of FVOCI investment | - | - | - | - | (3,897) | 3,897 | - | - | - |
| Other comprehensive loss | - | - | - | - | (193,298) | - | (193,298) | 15 | (193,283) |
| Total comprehensive income for the period | - | - | - | - | (197,195) | 261,584 | 64,389 | 7,608 | 71,997 |
| Directors' remuneration (Note 17) | - | - | - | - | - | (10,409) | (10,409) | (727) | (11,136) |
| Charity donations (Note 17) | - | - | - | - | - | (7,500) | (7,500) | - | (7,500) |
| Transfer to reserves (Note 17) | - | - | 50,000 | - | - | (50,000) | - | - | - |
| Acquisition of a non-controlling interest in a subsidiary | - | - | - | - | - | - | - | 12,696 | 12,696 |
| Dividends (Note 17) | - | - | - | - | - | (160,860) | (160,860) | (1,469) | (162,329) |
| Balance at 30 September 2017 (unaudited) | 2,100,000 | 1,050,000 | 560,000 | 100,000 | (174,359) | 638,850 | 4,274,491 | 228,965 | 4,503,456 |
| Balance at 1 January 2018 (audited) | 2,100,000 | 1,050,000 | 560,000 | 100,000 | (400,782) | 647,251 | 4,056,469 | 11,462 | 4,067,931 |
| Profit for the period | - | - | - | - | - | 301,290 | 301,290 | (404) | 300,886 |
| Other comprehensive income | - | - | - | - | 5,105 | - | 5,105 | - | 5,105 |
| Total comprehensive income for the period | - | - | - | - | 5,105 | 301,290 | 306,395 | (404) | 305,991 |
| Effect of adopting IFRS9 (Note 3.5) | - | - | - | - | - | (265,158) | (265,158) | - | (265,158) |
| Transfer to contingency reserve (Note 17) | - | - | 40,000 | - | - | (40,000) | - | - | - |
| Directors' remuneration (Note 17) | - | - | - | - | - | (11,467) | (11,467) | - | (11,467) |
| Charity donations (Note 17) | - | - | - | - | - | (7,500) | (7,500) | - | (7,500) |
| Balance at 30 September 2018 (unaudited) | 2,100,000 | 1,050,000 | 600,000 | 100,000 | (395,677) | 624,416 | 4,078,739 | 11,058 | 4,089,797 |

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

**Condensed consolidated interim statement of cash flows (unaudited)
for the nine-month period ended 30 September**

| | Note | 30 September 2018 AED'000 | 30 September 2017 AED'000 |
|--|------|---------------------------------|---------------------------------|
| Cash flows from operating activities | | | |
| Profit for the period | | 300,886 | 265,280 |
| Adjustments for: | | | |
| Depreciation of property and equipment | | 22,043 | 21,564 |
| Amortisation of other intangible assets | | 4,433 | 4,433 |
| Amortisation of discount on debt instruments | | 347 | (4,053) |
| Gain on sale of property and equipment | | 82 | (36) |
| Net fair value gain on issued debt securities | | (91,141) | (4,003) |
| Net fair value loss on interest rate swaps | | 91,141 | 4,003 |
| Net fair value gain on other financial assets | | (44,366) | (24,536) |
| Net impairment loss on financial assets | | (18,418) | 53,414 |
| Dividend income | | (14,964) | (2,349) |
| | | <hr/> | <hr/> |
| Operating profit before changes in operating assets and liabilities | | 250,043 | 313,717 |
| Changes in | | | |
| Deposits and balances due from banks maturing after three months | | (97,230) | 100,708 |
| Statutory deposits with central banks | | 228,541 | (38,353) |
| Loans and advances | | 1,179,112 | 640,691 |
| Other assets | | (1,887,516) | (880,027) |
| Customers' deposits | | (1,936,406) | 3,955,498 |
| Other liabilities | | 286,037 | 153,123 |
| | | <hr/> | <hr/> |
| Cash (used in)/ generated from operating activities | | (1,977,419) | 4,245,357 |
| Payment of directors' remuneration and charity donations | | (18,967) | (18,636) |
| | | <hr/> | <hr/> |
| Net cash (used in)/ generated from operating activities | | (1,996,386) | 4,226,721 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | (14,630) | (14,947) |
| Proceeds from sale of property and equipment | | 298 | 121 |
| Addition to investment properties | | (26,670) | (373,701) |
| Purchase of other financial assets | | (113,701) | (206,025) |
| Acquisition of a subsidiary | | - | (98,030) |
| Proceeds from sale of other financial assets | | 70,848 | 171,908 |
| Dividend income | | 14,964 | 2,349 |
| | | <hr/> | <hr/> |
| Net cash used in investing activities | | (68,891) | (518,325) |
| Cash flows from financing activities | | | |
| Dividends paid | | - | (162,329) |
| Issued bonds | | - | 1,836,500 |
| | | <hr/> | <hr/> |
| Net cash generated from financing activities | | - | 1,674,171 |
| | | <hr/> | <hr/> |
| Net (decrease)/ increase in cash and cash equivalents | | (2,065,277) | 5,382,567 |
| Cash and cash equivalents at the beginning of the period | | 5,113,748 | 3,015,845 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the period | 20 | 3,048,471 | 8,398,412 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018****1. General information**

Bank of Sharjah P.J.S.C. (the “Bank”), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank’s registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through five branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying condensed consolidated interim financial statements combine the activities of the Bank and its subsidiaries (collectively the “Group”).

2. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard No. 34 - Interim Financial Reporting (“IAS 34”) issued by the International Accounting Standards Board and the applicable provisions of UAE Federal Law No 2 of 2015.

The condensed consolidated interim financial statements are presented in U.A.E. Dirhams (AED) as that is the currency in which the majority of the Group’s transactions are denominated.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

These condensed consolidated interim financial statements do not include all the information required in full consolidated financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2017. In addition, the results for the period from 1 January 2018 to 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

3. Application of new and revised International Financial Reporting Standards (IFRSs)**3.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial information**

The following revised IFRSs have been adopted in these condensed consolidated interim financial information. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods, except as disclosed, but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 40 Investment property relating to when a transfer to or from investment property is made.
- Revised version of IFRS 9 relating to the recognition of the expected credit losses based on three stage model for measurement of impairment.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

**3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)**

3.2 New and revised standards in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective. The management is in the process of assessing the impact of the new requirements.

| New and revised IFRSs | Effective for annual periods beginning on or after |
|--|---|
| <ul style="list-style-type: none"> IFRS 16 <i>Leases</i>: IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. | 1 January 2019 |

3.3 Changes in accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the last annual financial statements except for changes resulting from adoption of the following:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of initial application of 1 January 2018. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)****3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)****3.3 Changes in accounting policies (continued)***Classification of financial assets and financial liabilities (continued)*

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

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Business model assessment

The Bank 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 interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)****3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)****3.3 Changes in accounting policies (continued)***Business model assessment (continued)*

- the risks that affect the performance of the business model (and the financial assets held within that business model) and 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 Bank'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.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' 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 solely payments of principal and interest, the Bank 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.

Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)****3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)****3.3 Changes in accounting policies (continued)*****Impairment (continued)***

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

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

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

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

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

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)****3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)****3.3 Changes in accounting policies (continued)***Measurement of ECL (continued)*

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

Macroeconomic factors

In its models, the Bank relies on a broad range of forward looking information as economic inputs, such as: GDP growth and oil prices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant.

This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)****3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)****3.3 Changes in accounting policies (continued)***Assessment of significant increase in credit risk (continued)*

• where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

• debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

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

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

Hedge accounting

The Bank has elected to continue to apply the hedge accounting requirements of IAS 39. The hedge accounting policy is described in Note 4.14 of the Bank's consolidated financial statements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

**3. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)**

3.4 Impact on components of statement of financial position balances from IAS 39 to IFRS 9

Explanations in respect of change in measurement of categories of financial assets in accordance with IFRS 9 as at 1 January 2018 primarily comprise the following:

- Net loans and advances- an opening adjustment of AED 243 million has resulted in decrease in value of AED 17.48 billion at 31 December 2017 to AED 17.23 billion.
- Cash and balances with central banks - an opening adjustment of AED 14 million has resulted in decrease in value of AED 5.59 billion at 31 December 2017 to AED 5.57 billion.
- Deposits and balances due from banks - an opening adjustment of AED 1.87 million has resulted in decrease in value of AED 503 million at 31 December 2017 to AED 501 million.
- Reverse-repo placements - an opening adjustment of AED 363 thousand has resulted in decrease in value of AED 1.87 billion at 31 December 2017 to AED 1.87 billion.
- Investment in debt securities at amortised cost - an opening adjustment of AED 6 million has resulted in decrease in value of AED 795 million at 31 December 2017 to AED 789 million.

3.5 Reconciliation of impairment provision balance from IAS 39 to IFRS 9

The following table reconciles the closing impairment loss allowance for financial assets in accordance with IAS 39 and provisions for financing commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

| | 31 Dec 2017 | Re-measure- ment | 1 Jan 2018 |
|---|-------------------|---------------------|-------------------|
| | AED'000 | AED'000 | AED'000 |
| Loans and advances at amortised cost | 17,476,329 | (242,648) | 17,233,681 |
| Cash and balances with central banks | 5,587,606 | (14,299) | 5,573,307 |
| Deposits and balances due from banks | 503,218 | (1,866) | 501,352 |
| Reverse-repo placements | 1,867,798 | (363) | 1,867,435 |
| Investment in debt securities at amortised cost | 794,585 | (5,982) | 788,603 |
| | <u>26,229,536</u> | <u>(265,158)</u> | <u>25,964,378</u> |
| | ===== | ===== | ===== |

4. Use of estimates and judgements

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

In preparing condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended 31 December 2017, except the below which were a result of adoption of IFRS 9:

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

4. Use of estimates and judgements (continued)

Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

5. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

6. Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

The condensed consolidated interim financial statements comprise the financial statements of the Bank and of the following subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant inter-group balances, income and expense items are eliminated on consolidation.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to the equity holders of the Bank.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

6. Basis of consolidation (continued)

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

| Name of Subsidiary | Proportion of ownership interest | | Year of incorporation | Country of incorporation | Principal activities |
|-------------------------------|----------------------------------|------|-----------------------|--------------------------|---|
| | 2018 | 2017 | | | |
| Emirates Lebanon Bank S.A.L. | 100% | 100% | 1965 | Lebanon | Financial institution |
| El Capital FZC | 100% | 100% | 2007 | U.A.E. | Investment in a financial institution |
| BOS Real Estate FZC | 100% | 100% | 2009 | U.A.E. | Real estate development activities |
| BOS Capital FZC | 100% | 100% | 2009 | U.A.E. | Investment |
| Polyco General Trading L.L.C. | 100% | 100% | 2008 | U.A.E. | General trading |
| Borealis Gulf FZC | 100% | 100% | 2011 | U.A.E. | Investment & Real estate development activities Financing activities |
| BOS Funding Limited | 100% | 100% | 2015 | Cayman Islands | |
| Muwaileh Capital FZC | 90% | 90% | 2010 | U.A.E. | Developing of real estate & related activities |

7. Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|-------------------------------|--|---|
| Cash on hand | 56,396 | 58,403 |
| Statutory deposits (note 7.1) | 1,095,321 | 1,323,862 |
| Current accounts | 50,775 | 450,268 |
| Certificates of deposits | 2,399,679 | 3,755,073 |
| | 3,602,171 | 5,587,606 |
| Expected credit losses | (7,235) | - |
| | 3,594,936 | 5,587,606 |

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

7. Cash and balances with central banks (continued)

(b) The geographical analysis of the cash and balances with central banks is as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|------------------------|--|---|
| Banks abroad | 1,760,195 | 3,838,043 |
| Banks in the U.A.E. | 1,841,976 | 1,749,563 |
| | <hr/> | <hr/> |
| | 3,602,171 | 5,587,606 |
| Expected credit losses | (7,235) | - |
| | <hr/> | <hr/> |
| | 3,594,936 | 5,587,606 |
| | <hr/> <hr/> | <hr/> <hr/> |

7.1 The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits with the central banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and USD reserve requirement limit. As at 30 September 2018, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 503 million (31 December 2017: AED 718 million).

8. Deposits and balances due from banks

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

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|------------------------|--|---|
| Demand | 640,058 | 289,304 |
| Time | 104,642 | 213,914 |
| | <hr/> | <hr/> |
| | 744,700 | 503,218 |
| Expected credit losses | (1,463) | - |
| | <hr/> | <hr/> |
| | 743,237 | 503,218 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|------------------------|--|---|
| Banks abroad | 594,060 | 471,395 |
| Banks in the U.A.E. | 150,640 | 31,823 |
| | <hr/> | <hr/> |
| | 744,700 | 503,218 |
| Expected credit losses | (1,463) | - |
| | <hr/> | <hr/> |
| | 743,237 | 503,218 |
| | <hr/> <hr/> | <hr/> <hr/> |

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

9. Reverse-repo placements

The analysis of the Group's repurchase agreements is as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|------------------------|--|---|
| Banks abroad | - | 272,821 |
| Banks in the U.A.E. | 1,764,425 | 1,594,977 |
| | 1,764,425 | 1,867,798 |
| Expected credit losses | (589) | - |
| | 1,763,836 | 1,867,798 |

The Bank entered into reverse-repo agreements under which bonds with fair value of AED 1,761 million (31 December 2017 - AED 1,885 million) were received as collateral against cash placements. The risks and rewards relating to these bonds remain with the counter parties.

10. Loans and advances, net

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

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|------------------------------------|--|---|
| Overdrafts | 7,339,046 | 6,617,800 |
| Commercial loans | 9,252,572 | 10,142,743 |
| Bills receivable | 952,060 | 2,136,416 |
| Other advances | 714,755 | 541,211 |
| Gross amount of loans and advances | 18,258,433 | 19,438,170 |
| Less: Allowance for impairment | (1,775,507) | (1,555,122) |
| Less: Interest in suspense | (409,938) | (406,719) |
| Net loans and advances | 16,072,988 | 17,476,329 |

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

10. Loans and advances, net (continued)

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

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|----------------------------------|--|---|
| Loans and advances in the U.A.E. | 15,635,090 | 16,782,025 |
| Loans and advances abroad | 2,623,343 | 2,656,145 |
| | 18,258,433 | 19,438,170 |

(c) Loans and advances are stated net of allowance for impairment. The movement in the allowance during the period/year was as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|--|--|---|
| Balance at the beginning of the period/year | 1,555,122 | 1,583,551 |
| Additions through collective impairment, net | 7,000 | 6,289 |
| Additions | 39,970 | 351,302 |
| Transfer from interest in suspense | 55,247 | - |
| Write-offs | (67,642) | (250,874) |
| Write-backs | (37,564) | (135,146) |
| | 1,552,133 | 1,555,122 |
| Cumulative effect of adopting IFRS 9 | 223,374 | - |
| Balance at the end of the period/year | 1,775,507 | 1,555,122 |

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

11. Other financial assets

(a) The analysis of the Group's other financial assets is as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|--|--|---|
| Other financial assets measured at fair value | | |
| (i) Investments measured at FVTPL | | |
| Quoted equity | 147,818 | 103,453 |
| | 147,818 | 103,453 |
| (ii) Investments measured at FVTOCI | | |
| Quoted equity | 191,754 | 145,416 |
| Unquoted equity | 490,800 | 564,417 |
| Debt securities | 189,186 | - |
| | 871,740 | 709,833 |
| Total other financial assets measured at fair value | 1,019,558 | 813,286 |
| Other financial assets measured at amortised cost | | |
| Debt securities | 643,712 | 794,585 |
| Expected credit losses | (4,272) | - |
| | 639,440 | 794,585 |
| Total other financial assets | 1,658,998 | 1,607,871 |

The majority of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

(b) The composition of the investment portfolio by geography is as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|---|--|---|
| United Arab Emirates | 645,900 | 474,196 |
| Middle East (other than G.C.C. countries) | 987,250 | 1,103,552 |
| Europe | 30,120 | 30,123 |
| | 1,663,270 | 1,607,871 |
| Expected credit losses | (4,272) | - |
| | 1,658,998 | 1,607,871 |

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

12. Other assets

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|---|--|---|
| Acceptances – contra | 812,383 | 629,651 |
| Assets acquired in settlement of debt | 2,142,138 | 1,262,546 |
| Cheques in the course of collection | 828,076 | - |
| Interest receivable | 36,656 | 40,943 |
| Clearing receivables and accrued income | 34,046 | 97,340 |
| Prepayments | 15,735 | 23,269 |
| Positive fair value of derivatives | 8,551 | 5,945 |
| Other | 215,185 | 133,038 |
| | <u>4,092,770</u> | <u>2,192,732</u> |

13. Customers' deposits

The analysis of customers' deposits is as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|----------------------------|--|---|
| Current and other accounts | 3,517,504 | 3,742,322 |
| Saving accounts | 1,644,294 | 1,715,952 |
| Time deposits | 14,532,268 | 16,172,197 |
| | <u>19,694,066</u> | <u>21,630,471</u> |

14. Deposits and balances due to banks

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

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|--------|--|---|
| Demand | 30,403 | 4,319 |
| Time | 387,408 | 82,803 |
| | <u>417,811</u> | <u>87,122</u> |

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

14. Deposits and balances due to banks (continued)

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

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|---------------------|--|---|
| Banks in the U.A.E. | 257,300 | 4,060 |
| Banks abroad | 160,511 | 83,062 |
| | 417,811 | 87,122 |
| | ===== | ===== |

15. Other Liabilities

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|--|--|---|
| Acceptances – contra | 812,383 | 629,651 |
| Interest payable | 147,373 | 161,576 |
| Managers' cheques | 124,597 | 34,168 |
| Negative fair value of derivatives | 104,389 | 40,032 |
| Accrued expenses and others | 98,093 | 84,599 |
| Unearned income | 80,356 | 26,271 |
| Provision for employees' end of service benefits | 42,772 | 42,569 |
| | 1,409,963 | 1,018,866 |
| | ===== | ===== |

16. Issued Bonds

On 8 June 2015, the Bank raised financing by way of USD 500 million (equivalent to AED 1,836 million) in senior unsecured bonds (the "Bonds") issued by BOS Funding Limited, a wholly owned subsidiary of the Bank, incorporated in the Cayman Islands. The Bonds are fully guaranteed by the Bank, carry a fixed interest rate of 3.374 per cent per annum payable semi-annually and are listed on the Irish Stock Exchange.

On 28 February 2017, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836 million) for a five year maturity at mid swaps plus 225 basis point, to yield 4.23%. The Notes were issued under the Bank's recently established Euro Medium Term Note (EMTN) Programme which is listed on the Irish Stock Exchange.

17. Transactions with owners and directors of the Group

Bank of Sharjah

Dividends

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders approved no cash dividends distribution (2016: 7.66% dividends distribution amounting to AED 161 million).

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

17. Transactions with owners and directors of the Group (continued)

Bank of Sharjah

Directors' remuneration

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders of the Bank approved Directors' remuneration of AED 7.5 million (2016: AED 7.5 million).

Charity donations

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders approved charitable donations of AED 7.5 million (2016: AED 7.5 million).

Transfer to reserves

At the Annual General Meeting of the shareholders held on 24 March 2018, the shareholders approved an appropriation of AED 40 million (2016: AED 50 million) to contingency reserves.

Emirates Lebanon Bank

Cash dividend

At the Annual General Meeting held on 3 March 2018 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved no cash dividend distribution (2016: cash dividend of AED 7.3 million out of which the non-controlling interest share amounted to AED 1.5 million).

Directors' remuneration

At the Annual General Meeting held on 3 March 2018 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.9 million (2016: AED 3.6 million out of which the non-controlling interest share amounted to AED 0.7 million).

18. Earnings per share

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

| | Three-month period ended 30 September | | Nine-month period ended 30 September | |
|---|--|---------------------|---|---------------------|
| | 2018 (unaudited) | 2017 (unaudited) | 2018 (unaudited) | 2017 (unaudited) |
| Basic earnings per share | | | | |
| Profit attributable to owners of the Bank for the period (AED'000) | 100,955 | 109,885 | 301,290 | 257,687 |
| Profit available to the owners of the Bank | 100,955 | 109,885 | 301,290 | 257,687 |
| Weighted average number of shares outstanding during the period (in thousands shares) | 2,100,000 | 2,100,000 | 2,100,000 | 2,100,000 |
| Basic earnings per share (AED) | 0.048 | 0.052 | 0.143 | 0.123 |

As at 30 September 2018 and 30 September 2017, there were no potential dilutive shares outstanding.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

19. Commitments and contingent liabilities

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|--|--|---|
| Financial guarantees for loans | 346,798 | 629,622 |
| Other guarantees | 2,320,777 | 1,736,696 |
| Letters of credit | 1,076,070 | 1,372,439 |
| Capital commitments | 17,496 | 17,496 |
| | 3,761,141 | 3,756,253 |
| Irrevocable commitments to extend credit | 1,394,172 | 1,873,569 |
| | 5,155,313 | 5,629,822 |

20. Cash and cash equivalents

| | 30 September 2018 AED'000 (unaudited) | 30 September 2017 AED'000 (unaudited) |
|---|--|--|
| Cash and balances with central banks (Note 7) | 3,594,936 | 6,223,944 |
| Deposits and balances due from banks (Note 8) | 743,237 | 516,906 |
| Reverse-repo placements (Note 9) | 1,763,836 | 4,270,324 |
| Deposits and balances due to banks (Note 14) | (417,811) | (148,717) |
| | 5,684,198 | 10,862,457 |
| Less: Deposits with central banks and balances due from banks - original maturity more than three months | (1,540,406) | (1,287,137) |
| Less: Statutory deposits with central banks (Note 7) | (1,095,321) | (1,176,908) |
| | 3,048,471 | 8,398,412 |

21. Fiduciary assets

As at 30 September 2018, the Group holds investments at fair value amounting to AED 0.7 billion (31 December 2017: at fair value AED 0.7 billion) which are held in custody on behalf of customers and therefore are not treated as assets in the condensed consolidated interim statement of financial position.

22. Related party transactions

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

22. Related party transactions (continued)

The related parties balances included in the condensed consolidated interim statement of financial position and the significant transactions with related parties are as follows:

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|--|--|---|
| Loans and advances | 806,103 | 647,927 |
| Letters of credit, guarantee and acceptances | 120,321 | 122,045 |
| | 926,424 | 769,972 |
| Collateral deposits | 226,327 | 207,313 |
| Net exposure | 700,097 | 562,659 |
| Other deposits | 124,548 | 154,394 |
| | Nine-months period ended 30 September | |
| | 2018 AED'000 (unaudited) | 2017 AED'000 (unaudited) |
| Interest income | 38,223 | 37,530 |
| Interest expense | 7,705 | 7,456 |
| Directors fees | 11,467 | 11,136 |

23. Segmental information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For operating purposes, the Group is organised into two major business segments:

- (i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Investment Banking, which involves the management of the Group's investment portfolio.

These segments are the basis on which the Group reports its segment information. Transactions between segments are conducted at rates determined by management, taking into consideration the cost of funds and an equitable allocation of expenses.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

23. Segmental information (continued)

The following table presents information regarding the Group's operating segments:

| | Commercial Banking AED'000 | Investment Banking AED'000 | Unallocated AED'000 | Total AED'000 |
|--|---|---|--------------------------------|--------------------------|
| <u>30 September 2018 (unaudited):</u> | | | | |
| Segment assets | 22,305,231 | 3,370,205 | 3,541,416 | 29,216,852 |
| Segment liabilities | 20,924,260 | 3,605,215 | 597,580 | 25,127,055 |
| <u>31 December 2017 (audited):</u> | | | | |
| Segment assets | 25,481,493 | 3,197,803 | 1,831,904 | 30,511,200 |
| Segment liabilities | 22,347,244 | 3,706,810 | 389,215 | 26,443,269 |

The following table presents information regarding the Group's operating segments for the nine-month period ended 30 September 2018 (unaudited):

| | Commercial Banking AED'000 | Investment Banking AED'000 | Unallocated AED'000 | Total AED'000 |
|--|---|---|--------------------------------|--------------------------|
| Revenue from external customers | | | | |
| -Net interest income | 318,712 | 29,177 | - | 347,889 |
| -Net fee and commission income | 90,825 | - | - | 90,825 |
| -Exchange profit | 11,303 | - | - | 11,303 |
| -Investment income | - | 58,654 | - | 58,654 |
| -Other income | 11,088 | - | - | 11,088 |
| Operating income | 431,928 | 87,831 | - | 519,759 |
| Other material non-cash items | | | | |
| -Net impairment charge on financial assets | 18,418 | - | - | 18,418 |
| -Depreciation of property and equipment | - | - | (22,043) | (22,043) |
| -General and administrative expenses | (169,047) | (29,832) | - | (198,879) |
| -Amortization of other intangible assets | - | - | (4,433) | (4,433) |
| -Income tax– overseas | - | - | (11,936) | (11,936) |
| Profit for the period | 281,299 | 57,999 | (38,412) | 300,886 |

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

23. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the nine-month period ended 30 September 2017 (unaudited):

| | Commercial Banking AED'000 | Investment Banking AED'000 | Unallocated AED'000 | Total AED'000 |
|--|---|---|--------------------------------|--------------------------|
| Revenue from external customers | | | | |
| -Net interest income | 320,957 | 31,415 | - | 352,372 |
| -Net fee and commission income | 129,156 | - | - | 129,156 |
| -Exchange profit | 15,288 | - | - | 15,288 |
| -Investment loss | - | 26,140 | - | 26,140 |
| -Other income | 10,302 | 9,000 | - | 19,302 |
| | <u>475,703</u> | <u>66,555</u> | <u>-</u> | <u>542,258</u> |
| Operating income | | | | |
| Other material non-cash items | | | | |
| -Net impairment charge on financial assets | (53,414) | - | - | (53,414) |
| -Depreciation of property and equipment | - | - | (21,564) | (21,564) |
| -General and administrative expenses | (161,946) | (28,579) | - | (190,525) |
| -Amortization of other intangible assets | - | - | (4,433) | (4,433) |
| -Income tax– overseas | - | - | (7,042) | (7,042) |
| | <u>260,343</u> | <u>37,976</u> | <u>(33,039)</u> | <u>265,280</u> |
| Profit for the period | | | | |

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (30 September 2018: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for the purpose of resource allocation. The accounting policies of the reportable segments are the same as the Group's accounting policies as disclosed in the consolidated financial statements for the year ended 31 December 2017.

For the purposes of monitoring segment performance and allocating resources between segments:

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

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

23. Segmental information (continued)

Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | Country of domicile AED'000 | Foreign AED'000 | Total AED'000 |
|--|--|----------------------------|--------------------------|
| 2018 | | | |
| Operating income (from external customers) for the nine month period ended 30 September 2018 (unaudited) | 414,749 | 105,010 | 519,759 |
| Non-current assets as at 30 September 2018 (unaudited) | 4,204,538 | 337,400 | 4,541,938 |
| 2017 | | | |
| Operating income (from external customers) for the nine month period ended 30 September 2017 (unaudited) | 431,581 | 110,677 | 542,258 |
| Non-current assets as at 30 September 2017 (unaudited) | 2,840,259 | 365,026 | 3,205,285 |

24. Fair value of financial instruments

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

Other financial assets held at fair value through profit and loss

Investments held at fair value through profit and loss represent investment in securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Included in these investments listed, debt and equity securities for which the fair values are based on quoted prices at close of business as at 30 September 2018.

Other financial assets held at fair value through other comprehensive income (unquoted)

Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

24. Fair value of financial instruments (continued)

Fair value of financial assets carried at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the condensed consolidated interim financial statements approximate their fair values.

| | 30 September 2018 | | 31 December 2017 | |
|--|--|---|--|---------------------------------------|
| | Carrying amount AED'000 (unaudited) | Fair Value AED'000 (unaudited) | Carrying amount AED'000 (audited) | Fair value AED'000 (audited) |
| <i>Financial assets</i> | | | | |
| - Other financial assets measured at amortised cost | 639,440 | 600,301 | 794,585 | 790,552 |

The fair value for other financial assets measured at amortized cost is based on market prices.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are banked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

24. Fair value of financial instruments (continued)

Fair value measurements recognised in the consolidated statement of financial position (continued)

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|--------------------|--------------------|--------------------|------------------|
| At 30 September 2018 (unaudited) | | | | |
| <i>Other financial assets measured at fair value</i> | | | | |
| <i>Investment measured at FVTPL</i> | | | | |
| Quoted equity | 147,818 | - | - | 147,818 |
| <i>Investments carried at FVTOCI</i> | | | | |
| Quoted equity | 191,754 | - | - | 191,754 |
| Unquoted equity | - | - | 490,800 | 490,800 |
| Unquoted debt securities | - | 189,186 | - | 189,186 |
| Total | 339,572 | 189,186 | 490,800 | 1,019,558 |
| <i>Other financial liabilities measured at fair value</i> | | | | |
| Issued bonds measured at FVTPL | | | | |
| Quoted debt securities | 3,605,215 | - | - | 3,605,215 |
| <i>Other assets /liabilities</i> | | | | |
| Positive fair value of derivatives | - | 8,551 | - | 8,551 |
| Negative fair value of derivatives | - | (104,389) | - | (104,389) |
| At 31 December 2017 (audited) | | | | |
| <i>Other financial assets measured at fair value</i> | | | | |
| <i>Investment measured at FVTPL</i> | | | | |
| Quoted equity | 103,453 | - | - | 103,453 |
| <i>Investments carried at FVTOCI</i> | | | | |
| Quoted equity | 145,416 | - | - | 145,416 |
| Unquoted equity | - | - | 564,417 | 564,417 |
| Total | 248,869 | - | 564,417 | 813,286 |
| <i>Other financial liabilities measured at fair value</i> | | | | |
| Issued bonds measured at FVTPL | | | | |
| Quoted debt securities | 3,706,810 | - | - | 3,706,810 |
| <i>Other assets /liabilities</i> | | | | |
| Positive fair value of derivatives | - | 5,945 | - | 5,945 |
| Negative fair value of derivatives | - | (40,032) | - | (40,032) |

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

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2018 (continued)**

24. Fair value of financial instruments (continued)

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

| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (audited) |
|---|--|---|
| Opening balance | 564,417 | 913,010 |
| Additions | - | 37,309 |
| Disposals | - | (8,499) |
| Losses recognised in other comprehensive income | (73,617) | (377,403) |
| Closing balance | 490,800 | 564,417 |

25. Capital adequacy

The capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank:

| | Basel III | |
|------------------------------------|--|---|
| | 30 September 2018 AED'000 (unaudited) | 31 December 2017 AED'000 (unaudited) |
| <i>Capital base</i> | | |
| Common Equity Tier 1 | 3,851,767 | 3,914,400 |
| Additional Tier 1 capital | - | - |
| Tier 1 capital | 3,851,767 | 3,914,400 |
| Tier 2 capital | 292,576 | 245,400 |
| Total capital base | 4,144,343 | 4,159,800 |
| <i>Risk-weighted assets:</i> | | |
| Credit risk | 23,406,110 | 21,509,166 |
| Market risk | 297,308 | 208,783 |
| Operational risk | 1,481,723 | 1,481,723 |
| Total risk-weighted assets | 25,185,141 | 23,199,672 |
| Capital ratios | | |
| Common equity Tier 1 capital ratio | 15.29% | 16.87% |
| Tier 1 capital ratio | 15.29% | 16.87% |
| Total capital ratio | 16.46% | 17.93% |

26. Approval of condensed consolidated interim financial statements

The condensed consolidated interim financial statements were approved by the Board of Directors and authorised for issue on 21 October 2018.