

Bank of Sharjah P.J.S.C.

**Review report and
Condensed consolidated interim financial
Information for the nine-month period ended
30 September 2017**

Bank of Sharjah P.J.S.C.

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

To the Shareholders of Bank of Sharjah P.J.S.C.

Introduction

We have reviewed the accompanying 30 September 2017 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 2017;
- the condensed consolidated interim statement of profit or loss for the three-month and nine-month periods ended 30 September 2017;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2017;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2017;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2017; 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. 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 30 September 2017 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited



Fawzi AbuRass
Registration No: 968
Dubai, United Arab Emirates
Date:

23 OCT 2017

Bank of Sharjah P.J.S.C.

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Condensed consolidated interim statement of financial position**As at**

	Note	30 September 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
ASSETS			
Cash and balances with central banks	7	6,223,944	4,308,887
Deposits and balances due from banks	8	516,906	691,673
Reverse-repo placements	9	4,270,324	639,476
Loans and advances, net	10	16,380,892	17,074,997
Other financial assets measured at fair value	11	976,814	1,100,834
Other financial assets measured at amortised cost	11	794,569	747,237
Investment properties		655,038	281,337
Goodwill and other intangibles	12	334,618	228,324
Other assets	13	2,638,812	1,750,008
Property and equipment		267,492	274,196
Total assets		33,059,409	27,096,969
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	14	23,692,415	19,736,917
Deposits and balances due to banks	15	148,717	97,789
Other liabilities	16	1,000,647	835,897
Issued bonds	17	3,714,174	1,826,638
Total liabilities		28,555,953	22,497,241
Equity			
Capital and reserves			
Share capital		2,100,000	2,100,000
Statutory reserve		1,050,000	1,050,000
Contingency reserve		560,000	510,000
General reserve		100,000	100,000
Investment fair value reserve		(174,359)	22,836
Retained earnings		638,850	606,035
Equity attributable to equity holders of the Bank		4,274,491	4,388,871
Non-controlling interests		228,965	210,857
Total equity		4,503,456	4,599,728
Total liabilities and equity		33,059,409	27,096,969



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

23 OCT 2017



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Mr. Varouj Nerguizian
 General Manager

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.

**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	
		2017	2016	2017	2016
		AED'000	AED'000	AED'000	AED'000
Interest income		292,458	261,930	851,754	798,900
Interest expense		(181,883)	(126,401)	(499,382)	(399,944)
Net interest income		110,575	135,529	352,372	398,956
Net fee and commission income		77,373	25,370	129,156	83,141
Exchange profit		5,019	5,163	15,288	16,292
Income on investments		14,431	569	26,140	10,624
Other income		6,397	8,427	19,302	29,361
Operating income		213,795	175,058	542,258	538,374
Net impairment loss on financial assets		(25,040)	(11,506)	(53,414)	(48,005)
Net operating income		188,755	163,552	488,844	490,369
General and administrative expenses		(71,747)	(66,722)	(212,089)	(208,598)
Amortisation of intangible assets		(1,478)	(1,946)	(4,433)	(5,838)
Profit before taxes		115,530	94,884	272,322	275,933
Income tax expense – overseas		(2,712)	(2,353)	(7,042)	(7,732)
Net Profit		112,818	92,531	265,280	268,201
Attributable to:					
Equity holders of the Bank		109,885	90,242	257,687	260,481
Non-controlling interests		2,933	2,289	7,593	7,720
Profit for the period		112,818	92,531	265,280	268,201
Basic earnings per share (AED)	19	0.052	0.043	0.123	0.124

The accompanying notes 1 to 27 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of profit or 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	
	2017	2016	2017	2016
	AED'000	AED'000	AED'000	AED'000
Profit for the period	112,818	92,531	265,280	268,201
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	17,071	(2,050)	(139,394)	5,641
Net changes in fair value of financial liabilities measured at fair value through profit or loss due to credit risk	(13,400)	(30,172)	(53,889)	(39,585)
Total other comprehensive income/ (loss) for the period	3,671	(32,222)	(193,283)	(33,944)
Total comprehensive income for the period	116,489	60,309	71,997	234,257
Attributable to:				
Equity holders of the Bank	113,556	58,020	64,389	226,537
Non-controlling interests	2,933	2,289	7,608	7,720
Total comprehensive income for the period	116,489	60,309	71,997	234,257

The accompanying notes 1 to 27 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 2016 (audited)	2,100,000	1,050,000	480,000	100,000	212,432	476,485	4,418,917	203,527	4,622,444
Profit for the period	-	-	-	-	-	260,481	260,481	7,720	268,201
Other comprehensive loss	-	-	-	-	(33,944)	-	(33,944)	-	(33,944)
Total comprehensive income for the period	-	-	-	-	(33,944)	260,481	226,537	7,720	234,257
Directors' remuneration (Note 18)	-	-	-	-	-	(9,968)	(9,968)	(617)	(10,585)
Charity donations (Note 18)	-	-	-	-	-	(2,500)	(2,500)	-	(2,500)
Transfer to reserves (Note 18)	-	-	30,000	-	-	(30,000)	-	-	-
Treasury shares (Note 18)	-	-	-	-	-	(220,000)	(220,000)	-	(220,000)
Dividends (Note 18)	-	-	-	-	-	-	-	(2,204)	(2,204)
Balance at 30 September 2016 (unaudited)	2,100,000	1,050,000	510,000	100,000	178,488	474,498	4,412,986	208,426	4,621,412
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 18)	-	-	-	-	-	(10,409)	(10,409)	(727)	(11,136)
Charity donations (Note 18)	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Transfer to reserves (Note 18)	-	-	50,000	-	-	(50,000)	-	-	-
Acquisition of a non-controlling interest in a subsidiary	-	-	-	-	-	-	-	-	-
Dividends (Note 18)	-	-	-	-	-	-	-	12,696	12,696
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

The accompanying notes 1 to 27 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 2017 AED'000	30 September 2016 AED'000
Cash flows from operating activities			
Profit for the period		265,280	268,201
Adjustments for:			
Depreciation of property and equipment		21,564	19,454
Amortisation of other intangible assets		4,433	5,838
Amortisation of (discount)/ premium on debt instruments		(4,053)	149
(Loss)/ gain on sale of property and equipment		(36)	515
Net fair value (gain)/ loss on issued debt securities/ Sukuk		(4,003)	51,125
Net fair value loss/ (gain) on interest rate swaps		4,003	(51,125)
Net fair value gain on other financial assets		(24,536)	(10,624)
Amortization of transaction costs on issued bonds		-	6,498
Net impairment loss on financial assets		53,414	48,005
Dividends income		(2,349)	(2,741)
Operating profit before changes in operating assets and liabilities		313,717	335,286
Changes in			
Deposits and balances due from banks maturing after six months		100,708	(134,064)
Statutory deposits with central banks		(38,353)	(64,198)
Loans and advances		640,691	(1,222,132)
Other assets		(880,027)	620,751
Customers' deposits		3,955,498	(1,000,767)
Other liabilities		153,123	(640,674)
Cash generated from/ (used in) operating activities		4,245,357	(2,105,798)
Payment of directors' remuneration and charity donations		(18,636)	(13,085)
Net cash generated from/ (used in) operating activities		4,226,721	(2,118,883)
Cash flows from investing activities			
Purchase of property and equipment		(14,947)	(11,496)
Proceeds from sale of property and equipment		121	278
Addition to investment properties		(373,701)	-
Purchase of other financial assets		(206,025)	(365,227)
Acquisition of a subsidiary		(98,030)	-
Proceeds from sale of other financial assets		171,908	267,361
Dividends received		2,349	2,741
Net cash used in investing activities		(518,325)	(106,343)
Cash flows from financing activities			
Dividends paid		(162,329)	(2,204)
Issued bonds		1,836,500	-
Net cash generated from/ (used in) financing activities		1,674,171	(2,204)
Net increase/ (decrease) in cash and cash equivalents		5,382,567	(2,227,430)
Cash and cash equivalents at the beginning of the period		3,015,845	5,110,335
Cash and cash equivalents at the end of the period	21	8,398,412	2,882,905

The accompanying notes 1 to 27 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 2017****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. 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 2016.

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 2016. In addition, the results for the period from 1 January 2017 to 30 September 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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

The amendments to standards and interpretations that are effective for annual periods beginning 1 January 2017 are as follows:

- Amendments to IAS 7: Disclosure Initiative require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the reporting date, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
- Amendments to IFRS 12 Disclosure of Interests in Other Entities - Annual Improvements to IFRSs 2014–2016 Cycle clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

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

New and revised IFRSs in issue but not yet effective and not early adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these condensed consolidated interim financial statements:

New and revised IFRSs	Effective for annual periods beginning on or after 1 January 2018
<ul style="list-style-type: none"> IFRS 9 (Phase II and Phase III) includes new guidance on expected credit loss model for calculating impairment on financial assets and a new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank has performed a preliminary assessment of the impact of IFRS 9 'Financial Instruments' as per the instructions of the Central Bank of UAE. The Bank's focus continues to be on developing the impairment models and processes which are needed for the parallel run during 2017 in order to be fully compliant with IFRS 9. The Bank believes that once they finalize the impairment model and processes, they will be in a better position to assess the potential impact of IFRS 9 on the consolidated financial statements and any consequential effects on regulatory capital requirements. 	1 January 2018
<ul style="list-style-type: none"> IFRS 15 Revenue from Contracts with Customers: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. 	1 January 2018
<ul style="list-style-type: none"> IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. 	1 January 2019
<p>IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</p>	

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

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

New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> Amendments to IAS 40 Transfers of Investment Property: The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. 	1 January 2018
<p>The revised examples of evidence of a change in use included in the amended version of IAS 40 are not exhaustive – i.e. other forms of evidence may support a transfer.</p>	
<ul style="list-style-type: none"> Amendments to IAS 28 Investments in Associates in Joint Ventures: A venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. 	1 January 2018
<p>A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.</p>	
<ul style="list-style-type: none"> IFRIC 22 Foreign Currency Transactions and Advance Consideration: When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> is not clear on how to determine the transaction date for translating the related item. This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. 	1 January 2018

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning after 1 January 2017 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2017 (continued)

4. Use of estimates and judgements

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

In preparing these 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 that were applied to the consolidated financial statements as at and for the year ended 31 December 2016.

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 2016.

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.

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
	2017	2016			
Emirates Lebanon Bank S.A.L.	80%	80%	1965	Lebanon	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
BOS Funding Limited	100%	100%	2015	Cayman Islands	Financing activities
Muwaileh Capital FZC	90%	-	2010	U.A.E.	Real estate development activities

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

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 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Cash on hand	49,946	50,165
Statutory deposits (note 7.1)	1,176,908	1,138,555
Current accounts	347,983	1,011,892
Certificates of deposits	4,649,107	2,108,275
	6,223,944	4,308,887

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

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Banks abroad	1,697,720	1,712,280
Banks in the U.A.E.	4,526,224	2,596,607
	6,223,944	4,308,887

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 2017, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 565 million (31 December 2016: AED 534 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 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Demand	429,560	537,573
Time	87,346	154,100
	516,906	691,673

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

8. Deposits and balances due from banks (continued)

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

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Banks abroad	499,800	656,250
Banks in the U.A.E.	17,106	35,423
	516,906	691,673

9. Reverse-repo placements

The analysis of the Group's reverse-repo placements is as follows:

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Banks abroad	1,483,997	121,417
Banks in the U.A.E.	2,786,327	518,059
	4,270,324	639,476

The Bank entered into reverse-repo agreements under which bonds with fair value of AED 4,252 million (December 31, 2016 - AED 649 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 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Overdrafts	6,786,520	7,822,091
Commercial loans	9,921,837	9,392,326
Bills receivable	1,095,114	1,096,629
Other advances	375,647	669,106
Gross amount of loans and advances	18,179,118	18,980,152
Less: Allowance for impairment	(1,417,067)	(1,583,551)
Less: Interest in suspense	(381,159)	(321,604)
Net loans and advances	16,380,892	17,074,997

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

10. Loans and advances, net (continued)

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

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Loans and advances in the U.A.E.	15,428,242	16,288,853
Loans and advances abroad	2,750,876	2,691,299
	18,179,118	18,980,152

(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 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Balance at the beginning of the period/year	1,583,551	1,524,442
(Write-backs)/ additions through collective impairment, net	(12,377)	28,202
Additions	73,578	183,722
Transfer from interest in suspense	-	11,000
Write-offs	(211,396)	(41,549)
Write-backs	(16,289)	(122,266)
Balance at the end of the period/year	1,417,067	1,583,551

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

11. Other financial assets

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

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	97,888	77,510
Unquoted debt securities	2,668	-
	<u>100,556</u>	<u>77,510</u>
(ii) Investments measured at FVTOCI		
Quoted equity	139,689	110,314
Unquoted equity	736,569	913,010
	<u>876,258</u>	<u>1,023,324</u>
Total other financial assets measured at fair value	<u>976,814</u>	<u>1,100,834</u>
Other financial assets measured at amortised cost		
Debt securities	794,569	747,237
Total other financial assets	<u>1,771,383</u>	<u>1,848,071</u>

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 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
United Arab Emirates	445,845	397,448
G.C.C. countries (other than U.A.E.)	-	8,499
Middle East (other than G.C.C. countries)	1,325,417	1,442,017
Europe	121	107
	<u>1,771,383</u>	<u>1,848,071</u>

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

12. Goodwill related to investment in subsidiary

	30 September 2017 AED'000	31 December 2016 AED'000
At beginning of period/year	184,733	184,733
Additions during the period/year	110,726	-
At end of period/year	295,459	184,733

On 26 April 2017, the Bank acquired 90% of Muwaileh Capital FZC, a Sharjah Airport International Free Zone company. The acquisition was in cash and the effective date of acquisition was 31 May 2017. The operations of the Muwaileh Capital FZC have been fully transferred to the Bank on that date. The acquisition is accounted for using the purchase method of accounting, and the financial statements of Muwaileh Capital FZC have been consolidated.

As per the sales and purchase agreement, the purchase price will be finalized upon the completion of the due diligence and the negotiations for the determination of the final net assets fair value which is still in process. The difference between the consideration paid and the provisional fair value of the net assets at the transaction date has been booked provisionally as well under goodwill pending the completion of the due diligence. The amount recognized in goodwill at the transaction date amounted to AED 110.73 million.

The transaction has been accounted for during the second quarter of 2017 as follows:

	Net carrying value AED'000
Consideration paid	225,000
Fair value of net assets acquired (provisional)	(114,274)
Goodwill (provisional)	110,726

The Bank has, to date, not carried out the valuation of the individual fair values of the Muwaileh Capital FZC for the purposes of purchase price allocation as required by IFRS 3: Business Combination. The difference between the acquisition value and the carrying amount of the net equity of Muwaileh Capital FZC was booked provisionally as goodwill, pending the final determination and allocation of fair values by an independent evaluator, to be conducted within maximum period of 12 months from the acquisition date, as allowed by International Financial Reporting Standards (IFRS 3).

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

13. Other assets

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Acceptances – contra	690,675	557,288
Assets acquired in settlement of debt	1,256,300	833,730
Advance payment on additional investment in a subsidiary (Note 13.1)	305,777	-
Receivable from sale of investments	200,000	200,000
Interest receivable	39,732	23,396
Clearing receivables and accrued income	31,707	76,125
Prepayments	16,111	13,719
Positive fair value of derivatives	3,038	1,682
Other	95,472	44,068
	<u><u>2,638,812</u></u>	<u><u>1,750,008</u></u>

13.1 On 14 December 2016, the Board of Directors of the Bank decided to increase the shareholding of the Bank in Emirates Lebanon Bank S.A.L. by acquiring the remaining shares representing 20% of share capital, which is still subject to the approval of the Central Bank of Lebanon.

14. Customers' deposits

The analysis of customers' deposits is as follows:

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Current and other accounts	5,007,165	4,997,698
Saving accounts	1,737,082	1,727,095
Time deposits	16,948,168	13,012,124
	<u><u>23,692,415</u></u>	<u><u>19,736,917</u></u>

15. Deposits and balances due to banks

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

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Demand	74,920	5,867
Time	73,797	91,922
	<u><u>148,717</u></u>	<u><u>97,789</u></u>

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

15. Deposits and balances due to banks (continued)

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

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Banks in the U.A.E.	23,306	4,246
Banks abroad	125,411	93,543
	148,717	97,789

16. Other Liabilities

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Acceptances – contra	690,675	557,288
Interest payable	133,170	83,962
Accrued expenses and others	86,535	90,997
Provision for employees' end of service benefits	38,992	40,597
Unearned income	31,439	38,325
Managers' cheques	10,518	18,039
Negative fair value of derivatives	9,318	6,689
	1,000,647	835,897

17. Issue 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.

18. Transactions with owners and directors of the Group

Bank of Sharjah

Dividends

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders approved a 7.66% dividends distribution amounting to AED 161 million (2015: 5.24% treasury shares distribution (110 million shares) amounting to AED 220 million which were acquired against settlement of loans).

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

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

Bank of Sharjah (continued)

Directors' remuneration

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders of the Bank also approved Directors' remuneration of AED 7.5 million (2015: AED 7.5 million).

Charity donations

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders also approved charitable donations of AED 7.5 million (2015: AED 2.5 million).

Transfer to reserves

At the Annual General Meeting of the shareholders held on 29 April 2017, the shareholders also approved the appropriation of AED 50 million (2015: AED 30 million) to contingency reserves.

Emirates Lebanon Bank

Cash dividend

At the Annual General Meeting held on 11 February 2017 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved a cash dividend for an amount of AED 7.3 million (2015: cash dividend of AED 11.0 million) out of which the non-controlling interest share amounted to AED 1.5 million (2015: AED 2.2 million).

Directors' remuneration

At the Annual General Meeting held on 11 February 2017 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, approved Directors' remuneration of AED 3.6 million (2015: AED 3.1 million) out of which the non-controlling interest share amounted to AED 0.7 million (2015: AED 0.6 million).

19. 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	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Basic earnings per share				
Profit attributable to owners of the Bank for the period (AED'000)	109,885	90,242	257,687	260,481
Profit available to the owners of the Bank	109,885	90,242	257,687	260,481
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)	0.052	0.043	0.123	0.124

As at 30 September 2017 and 30 September 2016, there were no potential dilutive shares outstanding.

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

20. Commitments and contingent liabilities

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Financial guarantees for loans	392,775	424,325
Other guarantees	2,046,244	2,034,327
Letters of credit	1,286,809	1,223,786
Capital commitments	32,753	32,753
	<u>3,758,581</u>	<u>3,715,191</u>
Irrevocable commitments to extend credit	1,658,479	1,383,783
	<u>5,417,060</u>	<u>5,098,974</u>

21. Cash and cash equivalents

	30 September 2017 AED'000 (unaudited)	30 September 2016 AED'000 (unaudited)
Cash and balances with central banks (Note 7)	6,223,944	3,480,748
Deposits and balances due from banks (Note 8)	516,906	2,083,355
Reverse-repo placements (Note 9)	4,270,324	-
Deposits and balances due to banks (Note 15)	(148,717)	(130,140)
	<u>10,862,457</u>	<u>5,433,963</u>
Less: Deposits with central banks and balances due from banks - original maturity more than six months	(1,287,137)	(1,400,025)
Less: Statutory deposits with central banks (Note 7)	(1,176,908)	(1,151,033)
	<u>8,398,412</u>	<u>2,882,905</u>

22. Fiduciary assets

As at 30 September 2017, the Group holds investments at fair value amounting to AED 0.7 billion (31 December 2016: 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.

23. 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 2017 (continued)**

23. 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 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Loans and advances	868,324	2,273,609
Letters of credit, guarantee and acceptances	122,045	284,170
	990,369	2,557,779
Collateral deposits	267,096	233,393
Net exposure	723,273	2,324,386
Other deposits	150,129	112,512

As at 30 September 2017, entities related to one of the directors was nil (31 December 2016: 69% of the total aforementioned net exposure).

	Nine-months period ended 30 September	
	2017 AED'000 (unaudited)	2016 AED'000 (unaudited)
Interest income	37,530	60,954
Interest expense	7,456	3,736
Directors fees	11,136	10,585

The remaining 10% of the newly acquired subsidiary, Muwaileh Capital FZC, is owned by a related party.

24. 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:

- Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- 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 2017 (continued)**

24. 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 2017 (unaudited):</u>				
Segment assets	27,468,252	3,881,305	1,709,852	33,059,409
Segment liabilities	24,531,809	3,714,174	309,970	28,555,953
<u>31 December 2016 (audited):</u>				
Segment assets	22,592,369	3,237,684	1,266,916	27,096,969
Segment liabilities	20,391,994	1,826,638	278,609	22,497,241

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 income	-	26,140	-	26,140
-Other income	10,302	9,000	-	19,302
Operating income	475,703	66,555	-	542,258
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)
Profit for the period	260,343	37,976	(33,039)	265,280

**Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2017 (continued)**

24. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the nine-months period ended 30 September 2016 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
-Net interest income	373,663	25,293	-	398,956
-Net fee and commission income	83,141	-	-	83,141
-Exchange profit	16,292	-	-	16,292
-Investment profit	-	10,624	-	10,624
-Other income	-	-	29,361	29,361
Operating income	473,096	35,917	29,361	538,374
Other material non-cash items				
-Net impairment charge on financial assets	(48,005)	-	-	(48,005)
-Depreciation of property and equipment	-	-	(19,454)	(19,454)
-General and administrative expenses	(160,772)	(28,372)	-	(189,144)
-Amortization of other intangible assets	(5,838)	-	-	(5,838)
-Income tax- overseas	-	-	(7,732)	(7,732)
Profit for the period	258,481	7,545	2,175	268,201

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (30 September 2017: 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 2016.

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 2017 (continued)**

24. 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
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
2016			
Operating income (from external customers) for the nine month period ended 30 September 2016 (unaudited)	431,126	107,248	538,374
Non-current assets as at 30 September 2016 (unaudited)	1,621,863	325,623	1,947,486

25. 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 2017.

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 2017 (continued)**

25. 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 2017		31 December 2016	
	Carrying amount	Fair Value	Carrying amount	Fair value
	AED'000	AED'000	AED'000	AED'000
	(unaudited)	(unaudited)	(audited)	(audited)
Financial assets				
- Other financial assets measured at amortised cost	794,569	787,500	747,237	749,067

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 2017 (continued)**

25. 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 2017 (unaudited)				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	97,888	-	-	97,888
Unquoted debt securities	-	2,668	-	2,668
<i>Investments carried at FVTOCI</i>				
Quoted equity	139,689	-	-	139,689
Unquoted equity	-	-	736,569	736,569
Total	237,577	2,668	736,569	976,814
<i>Other financial liabilities measured at fair value</i>				
<i>Issued bonds measured at FVTPL</i>				
Quoted debt securities	3,714,174	-	-	3,714,174
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	3,038	-	3,038
Negative fair value of derivatives	-	(9,318)	-	(9,318)
At 31 December 2016 (audited)				
<i>Other financial assets measured at fair value</i>				
<i>Investment measured at FVTPL</i>				
Quoted equity	77,510	-	-	77,510
<i>Investments carried at FVTOCI</i>				
Quoted equity	110,314	-	-	110,314
Unquoted equity	-	-	913,010	913,010
Total	187,824	-	913,010	1,100,834
<i>Other financial liabilities measured at fair value</i>				
<i>Issued bonds measured at FVTPL</i>				
Quoted debt securities	1,826,638	-	-	1,826,638
<i>Other assets /liabilities</i>				
Positive fair value of derivatives	-	1,682	-	1,682
Negative fair value of derivatives	-	(6,689)	-	(6,689)

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 2017 (continued)**

25. Fair value of financial instruments (continued)

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

	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Opening balance	913,010	1,022,974
Disposals	(8,499)	-
Revaluation losses recognised in other comprehensive income	(167,942)	(109,964)
Closing balance	<u><u>736,569</u></u>	<u><u>913,010</u></u>

26. Capital adequacy

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

	Basel II	
	30 September 2017 AED'000 (unaudited)	31 December 2016 AED'000 (audited)
Capital base		
Tier 1 capital	4,343,199	4,348,568
Tier 2 capital	261,065	245,659
Total capital base	<u><u>4,604,264</u></u>	<u><u>4,594,227</u></u>
Risk-weighted assets:		
Credit risk	20,885,225	18,830,611
Market risk	199,015	171,177
Operational risk	1,484,159	1,484,159
Total risk-weighted assets	<u><u>22,568,399</u></u>	<u><u>20,485,947</u></u>
Capital adequacy ratio	<u><u>20.40%</u></u>	<u><u>22.43%</u></u>

27. 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 23 October 2017.