

# **Emirates Investment Bank P.J.S.C.**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**30 September 2016 (UNAUDITED)**

## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C.**

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated statement of financial position of Emirates Investment Bank P.J.S.C. (the “Bank”) as at 30 September 2016 and the related interim condensed consolidated statements of income and comprehensive income for the three month and nine month periods then ended, and the related interim condensed consolidated statements of cash flows and changes in equity for the nine month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

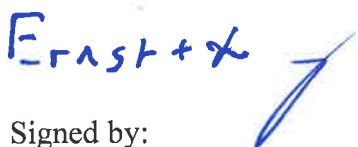
### ***Scope of Review***

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently, it 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

For Ernst & Young



Ernst & Young

Signed by:  
Anthony O'Sullivan  
Partner  
Registration No. 687

26 October 2016

Dubai, United Arab Emirates

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

|                                                            |       | 30 September<br>2016<br>AED'000<br>(Unaudited) | 31 December<br>2015<br>AED'000<br>(Audited) |
|------------------------------------------------------------|-------|------------------------------------------------|---------------------------------------------|
|                                                            | Notes |                                                |                                             |
| <b>ASSETS</b>                                              |       |                                                |                                             |
| Cash and balances with UAE Central Bank                    |       | 327,200                                        | 338,821                                     |
| Due from banks                                             | 3     | 1,418,369                                      | 1,431,449                                   |
| Loans and advances, net                                    | 4     | 754,187                                        | 307,794                                     |
| Investments                                                | 5     | 2,032,774                                      | 1,467,209                                   |
| Investment in an associate                                 |       | 72                                             | 72                                          |
| Property and equipment                                     |       | 4,818                                          | 5,073                                       |
| Other assets                                               |       | 74,295                                         | 18,005                                      |
| <b>TOTAL ASSETS</b>                                        |       | <b>4,611,715</b>                               | <b>3,568,423</b>                            |
| <b>LIABILITIES AND EQUITY</b>                              |       |                                                |                                             |
| <b>LIABILITIES</b>                                         |       |                                                |                                             |
| Due to banks                                               | 6     | 441,491                                        | 34,402                                      |
| Customer deposits                                          |       | 3,674,695                                      | 3,170,385                                   |
| Other liabilities                                          |       | 57,209                                         | 35,303                                      |
| <b>TOTAL LIABILITIES</b>                                   |       | <b>4,173,395</b>                               | <b>3,240,090</b>                            |
| <b>EQUITY</b>                                              |       |                                                |                                             |
| Share capital                                              |       | 70,000                                         | 70,000                                      |
| Legal reserve                                              |       | 35,000                                         | 35,000                                      |
| Special reserve                                            |       | 31,797                                         | 31,797                                      |
| Cumulative changes in fair values                          |       | 22,689                                         | 12,708                                      |
| Retained earnings                                          |       | 204,163                                        | 178,828                                     |
| <b>Equity attributable to equity holders of the parent</b> |       | <b>363,649</b>                                 | <b>328,333</b>                              |
| Non-controlling interests                                  |       | 74,671                                         | -                                           |
| <b>TOTAL EQUITY</b>                                        |       | <b>438,320</b>                                 | <b>328,333</b>                              |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>                      |       | <b>4,611,715</b>                               | <b>3,568,423</b>                            |

The interim condensed consolidated financial statements were approved by the Board of Directors on 26 October 2016 and signed on its behalf by:

  
Marwan Shehadeh  
(Director)

  
Khaled Sifri  
(Chief Executive Officer)

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2016 (Unaudited)

|                                                                                                           | Notes | <i>Three months ended 30<br/>September</i> |                         | <i>Nine months ended 30<br/>September</i> |                         |
|-----------------------------------------------------------------------------------------------------------|-------|--------------------------------------------|-------------------------|-------------------------------------------|-------------------------|
|                                                                                                           |       | <i>2016<br/>AED'000</i>                    | <i>2015<br/>AED'000</i> | <i>2016<br/>AED'000</i>                   | <i>2015<br/>AED'000</i> |
| Interest income                                                                                           | 7     | 11,772                                     | 9,368                   | 27,880                                    | 27,116                  |
| Net income from investments                                                                               | 8     | 19,782                                     | 18,871                  | 52,683                                    | 67,926                  |
|                                                                                                           |       | <u>31,554</u>                              | <u>28,239</u>           | <u>80,563</u>                             | <u>95,042</u>           |
| Interest expense                                                                                          |       | (7,816)                                    | (8,229)                 | (23,081)                                  | (25,991)                |
| <b>NET INTEREST INCOME AND NET<br/>INCOME FROM INVESTMENTS</b>                                            |       | <b>23,738</b>                              | <b>20,010</b>           | <b>57,482</b>                             | <b>69,051</b>           |
| Other income                                                                                              |       | 20,360                                     | 8,254                   | 47,147                                    | 21,808                  |
| Exchange gain- (net)                                                                                      |       | 951                                        | 251                     | 4,093                                     | 1,713                   |
| <b>OPERATING INCOME</b>                                                                                   |       | <b>45,049</b>                              | <b>28,515</b>           | <b>108,722</b>                            | <b>92,572</b>           |
| General and administrative expenses                                                                       |       | (22,288)                                   | (16,260)                | (60,079)                                  | (48,767)                |
| Impairment loss on available-for-sale<br>investments                                                      |       | (1,000)                                    | (13,580)                | (2,955)                                   | (17,299)                |
| Impairment provision on investments                                                                       |       | (9,000)                                    | -                       | (14,000)                                  | -                       |
| Impairment (loss)/reversal on investment in<br>bullion                                                    |       | (3)                                        | -                       | 121                                       | -                       |
| Impairment reversal/(loss) on loans and<br>advances                                                       |       | -                                          | 3,000                   | (6,295)                                   | 3,000                   |
| <b>OPERATING EXPENSES</b>                                                                                 |       | <b>(32,291)</b>                            | <b>(26,840)</b>         | <b>(83,208)</b>                           | <b>(63,066)</b>         |
| <b>PROFIT FOR THE PERIOD</b>                                                                              |       | <b>12,758</b>                              | <b>1,675</b>            | <b>25,514</b>                             | <b>29,506</b>           |
| Attributable to:                                                                                          |       |                                            |                         |                                           |                         |
| Equity holders of the parent                                                                              |       | 12,649                                     | 1,675                   | 25,335                                    | 29,506                  |
| Non-controlling interest                                                                                  |       | 109                                        | -                       | 179                                       | -                       |
| <b>PROFIT FOR THE PERIOD</b>                                                                              |       | <b>12,758</b>                              | <b>1,675</b>            | <b>25,514</b>                             | <b>29,506</b>           |
| <b>BASIC AND DILUTED EARNINGS PER SHARE<br/>ATTRIBUTABLE TO EQUITY HOLDERS OF<br/>THE PARENT (in AED)</b> | 9     | <b>18.07</b>                               | <b>2.39</b>             | <b>36.19</b>                              | <b>42.15</b>            |

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2016 (Unaudited)

|                                                                                                               | <u>Three months ended 30</u><br><u>September</u> |                | <u>Nine months ended 30</u><br><u>September</u> |                |
|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------|----------------|-------------------------------------------------|----------------|
|                                                                                                               | <u>2016</u>                                      | <u>2015</u>    | <u>2016</u>                                     | <u>2015</u>    |
|                                                                                                               | <u>AED'000</u>                                   | <u>AED'000</u> | <u>AED'000</u>                                  | <u>AED'000</u> |
| <b>Profit for the period</b>                                                                                  | <b>12,758</b>                                    | <b>1,675</b>   | <b>25,514</b>                                   | <b>29,506</b>  |
| <i><b>Other comprehensive income/ (loss) to be reclassified to income statement in subsequent periods</b></i> |                                                  |                |                                                 |                |
| Net unrealised gain/(loss) on available-for-sale investments                                                  | <b>15,934</b>                                    | (29,838)       | <b>19,973</b>                                   | (29,924)       |
| Net realised gain transferred to income statement on disposal of available-for-sale investments               | <b>(7,438)</b>                                   | (9,325)        | <b>(12,947)</b>                                 | (33,672)       |
| Impairment loss on available-for-sale investments recognized in income statement                              | <b>1,000</b>                                     | 13,580         | <b>2,955</b>                                    | 17,299         |
| <b>Other comprehensive income/ (loss) for the period</b>                                                      | <b>9,496</b>                                     | (25,583)       | <b>9,981</b>                                    | (46,297)       |
| <b>Total comprehensive income/ (loss) for the period</b>                                                      | <b>22,254</b>                                    | (23,908)       | <b>35,495</b>                                   | (16,791)       |
| Attributable to:                                                                                              |                                                  |                |                                                 |                |
| Equity holders of the parent                                                                                  | <b>22,145</b>                                    | (23,908)       | <b>35,316</b>                                   | (16,791)       |
| Non-controlling interest                                                                                      | <b>109</b>                                       | -              | <b>179</b>                                      | -              |
| <b>Total comprehensive income/ (loss) for the period</b>                                                      | <b>22,254</b>                                    | (23,908)       | <b>35,495</b>                                   | (16,791)       |

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2016 (Unaudited)

|                                                                                                                                                   | <i>Nine months ended 30</i> |                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------|
|                                                                                                                                                   | <i>September</i>            |                  |
|                                                                                                                                                   | <i>2016</i>                 | <i>2015</i>      |
|                                                                                                                                                   | <i>AED'000</i>              | <i>AED'000</i>   |
| <b>OPERATING ACTIVITIES</b>                                                                                                                       |                             |                  |
| Profit for the period                                                                                                                             | 25,514                      | 29,506           |
| Adjustments for:                                                                                                                                  |                             |                  |
| Depreciation                                                                                                                                      | 1,691                       | 1,520            |
| Impairment loss on available-for-sale investments                                                                                                 | 2,955                       | 17,299           |
| Impairment provision on available-for-sale investments                                                                                            | 14,000                      | -                |
| Impairment reversal on investment in bullion                                                                                                      | (121)                       | -                |
| Impairment loss on loans and advances                                                                                                             | 6,295                       | (3,000)          |
| Change in due to bank with original maturity of over three months                                                                                 | 100,000                     | (56,931)         |
| Change in due from bank with original maturity of over three months                                                                               | (125,783)                   | (53,632)         |
| Change in loans and advances (net)                                                                                                                | (452,688)                   | 25,261           |
| Change in investments (net)                                                                                                                       | (572,418)                   | (71,949)         |
| Change in other assets                                                                                                                            | (56,290)                    | (3,130)          |
| Change in customers' deposits                                                                                                                     | 504,310                     | 36,748           |
| Change in other liabilities                                                                                                                       | 21,906                      | 10,446           |
| Net cash used in operating activities                                                                                                             | (530,629)                   | (67,862)         |
| <b>INVESTING ACTIVITIES</b>                                                                                                                       |                             |                  |
| Purchase of property and equipment                                                                                                                | (1,436)                     | (2,172)          |
| Net cash used in investing activities                                                                                                             | (1,436)                     | (2,172)          |
| <b>FINANCING ACTIVITIES</b>                                                                                                                       |                             |                  |
| Funds from non-controlling interests                                                                                                              | 74,492                      | -                |
| Net cash from financing activities                                                                                                                | 74,492                      | -                |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                                                                                  | <b>(457,573)</b>            | <b>(70,034)</b>  |
| Cash and cash equivalents at 1 January                                                                                                            | 1,735,868                   | 1,205,633        |
| <b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>                                                                                                  | <b>1,278,295</b>            | <b>1,135,599</b> |
| Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less: |                             |                  |
| Cash and balances with the UAE Central Bank                                                                                                       | 327,200                     | 276,777          |
| Due from banks                                                                                                                                    | 1,292,586                   | 946,133          |
| Due to banks                                                                                                                                      | (341,491)                   | (87,311)         |
|                                                                                                                                                   | 1,278,295                   | 1,135,599        |
| <b>Operational cash flows from interest and dividends</b>                                                                                         |                             |                  |
| Interest paid                                                                                                                                     | 15,957                      | 42,984           |
| Interest received (including from investments)                                                                                                    | 46,964                      | 51,664           |
| Dividends received                                                                                                                                | 12,523                      | 11,739           |

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

# Emirates Investment Bank P.J.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2016 (Unaudited)

|                                                  | Share capital<br>AED '000<br>(Unaudited) | Legal reserve<br>AED '000<br>(Unaudited) | Special reserve<br>AED '000<br>(Unaudited) | Cumulative changes in fair value<br>AED '000<br>(Unaudited) | Retained earnings<br>AED '000<br>(Unaudited) | Non-controlling interest<br>AED '000<br>(Unaudited) | Total<br>AED '000<br>(Unaudited) |
|--------------------------------------------------|------------------------------------------|------------------------------------------|--------------------------------------------|-------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------|----------------------------------|
| At 1 January 2016                                | 70,000                                   | 35,000                                   | 31,797                                     | 12,708                                                      | 178,828                                      | -                                                   | 328,333                          |
| Profit for the period                            | -                                        | -                                        | -                                          | -                                                           | 25,335                                       | 179                                                 | 25,514                           |
| Other comprehensive income for the period        | -                                        | -                                        | -                                          | 9,981                                                       | -                                            | -                                                   | 9,981                            |
| Total comprehensive income for the period        | -                                        | -                                        | -                                          | 9,981                                                       | 25,335                                       | 179                                                 | 35,495                           |
| Movement in non-controlling interest             | -                                        | -                                        | -                                          | -                                                           | -                                            | 74,492                                              | 74,492                           |
| <b>Balance at 30 September 2016</b>              | <b>70,000</b>                            | <b>35,000</b>                            | <b>31,797</b>                              | <b>22,689</b>                                               | <b>204,163</b>                               | <b>74,671</b>                                       | <b>438,320</b>                   |
| At 1 January 2015                                | 65,000                                   | 32,500                                   | 28,984                                     | 52,248                                                      | 161,007                                      | -                                                   | 339,739                          |
| Profit for the period                            | -                                        | -                                        | -                                          | -                                                           | 29,506                                       | -                                                   | 29,506                           |
| Other comprehensive loss for the period          | -                                        | -                                        | -                                          | (46,297)                                                    | -                                            | -                                                   | (46,297)                         |
| Total comprehensive (loss)/income for the period | -                                        | -                                        | -                                          | (46,297)                                                    | 29,506                                       | -                                                   | (16,791)                         |
| Scrip dividend – (Note 14)                       | 5,000                                    | -                                        | -                                          | -                                                           | (5,000)                                      | -                                                   | -                                |
| Balance at 30 September 2015                     | 70,000                                   | 32,500                                   | 28,984                                     | 5,951                                                       | 185,513                                      | -                                                   | 322,948                          |

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**1 INCORPORATION AND ACTIVITIES**

Emirates Investment Bank P.J.S.C. (the "Bank") was incorporated on 17 February 1976 in Dubai, United Arab Emirates by a decree of HH The Ruler of Dubai. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 28 June 2015, replacing the existing Federal Law No. 8 of 1984.

During 2010, the Bank changed its name to Emirates Investment Bank PJSC. The Bank is engaged in the business of private banking and investment banking. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

The interim condensed consolidated financial statements for the period ended 30 September 2016 comprise the financial statements of the Bank and its subsidiary (together referred to as the "Group").

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 52.85% of the shares in the Bank.

**2 ACCOUNTING POLICIES**

**Basis of preparation**

The interim condensed consolidated financial statements of the Bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

In addition, results for the nine months ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

**Basis of consolidation**

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiary (a special purpose entity) as at 30 September 2016. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of 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 its returns

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

When the Bank has less than a majority of the voting or similar rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from the contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at shareholders' meetings.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**2 ACCOUNTING POLICIES (continued)**

**Basis of consolidation (continued)**

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

***Special purpose entities (SPE)***

A SPE is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. SPE are entities that often have restricted activities and are created to accomplish a narrow and well-defined objective such as the securitisation of assets or the execution of a specific financing transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank and the SPE's risk and rewards, the Bank concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Bank controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each statement of financial position date.

EIB Enhanced Liquidity Fund Limited (the "Company"), a SPE in which the Bank exercises control, is consolidated in these consolidated financial statements. The Company has launched a liquidity fund. The Bank has been appointed as the Investment Manager and Custodian of the Company. The Company is managed by EIB Investment Management (Cayman) Limited, which is a 100% subsidiary of an associate company of the Bank, EIB Investment Company LLC. The Company is an open-ended, multi-class investment company structured to operate as an open-ended unit trust or mutual fund and is an exempted company with limited liability formed under the laws of the Cayman Islands. The investment objective of the Company is to generate income and preserve capital through investment in short-term, high quality debt instruments and related securities.

**New standards, interpretations and amendments**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

The Group applies, for the first time, certain standards and amendments. As required by IAS 34, the nature and the effect of these changes are disclosed below:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**2 ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments (continued)**

**IFRS 14 Regulatory Deferral Accounts**

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

**Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

**Amendments to IAS 27: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group's consolidated financial statements.

**Annual Improvements 2012-2014 Cycle**

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

***IFRS 7 Financial Instruments: Disclosures***

**(i) Servicing contracts**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**2 ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments (continued)**

**Annual Improvements 2012-2014 Cycle (continued)**

*IFRS 7 Financial Instruments: Disclosures (Continued)*

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These above amendments do not have any impact on the Group.

**Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016.

**Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception**

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**3 DUE FROM BANKS**

|               | <i>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> |
|---------------|----------------------------------------------------------|-------------------------------------------------------|
| Domestic      | 201,345                                                  | 743,455                                               |
| Regional      | 130,561                                                  | 60,928                                                |
| International | 1,086,463                                                | 627,066                                               |
|               | <u>1,418,369</u>                                         | <u>1,431,449</u>                                      |

**4 LOANS AND ADVANCES, NET**

|                                       | <i>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> |
|---------------------------------------|----------------------------------------------------------|-------------------------------------------------------|
| Overdrafts / loans (secured)          | 665,808                                                  | 307,478                                               |
| Real estate loans                     | 99,379                                                   | 5,021                                                 |
|                                       | <u>765,187</u>                                           | <u>312,499</u>                                        |
| Gross loans and advances              | 765,187                                                  | 312,499                                               |
| Less: collective impairment provision | (11,000)                                                 | (4,705)                                               |
|                                       | <u>754,187</u>                                           | <u>307,794</u>                                        |

At 30 September 2016, there were no loans individually determined to be impaired and, accordingly, no specific provisions were considered necessary in respect of any of the loans and advances provided by the Group (31 December 2015: Nil).

Based on the assessment of health of the overall loans and advances portfolio, and also in compliance with the directive of the Central Bank of UAE, the Group has determined a collective impairment provision of AED 11,000 thousand (31 December 2015: AED 4,705 thousand) against risk of default incurred but not yet identified.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

## 5 INVESTMENTS

|                                                                          | 30 September<br>2016<br>AED'000<br>(Unaudited) | 31 December<br>2015<br>AED'000<br>(Audited) |
|--------------------------------------------------------------------------|------------------------------------------------|---------------------------------------------|
| <b>Designated at fair value through profit or loss</b>                   |                                                |                                             |
| <b>Debt</b>                                                              |                                                |                                             |
| Quoted                                                                   | 69,441                                         | 34,029                                      |
| Unquoted                                                                 | -                                              | 60,547                                      |
|                                                                          | <u>69,441</u>                                  | <u>94,576</u>                               |
| <b>Equity</b>                                                            |                                                |                                             |
| Unquoted                                                                 | 10,203                                         | 4,173                                       |
|                                                                          | <u>79,644</u>                                  | <u>98,749</u>                               |
| <b>Total investments designated at fair value through profit or loss</b> |                                                |                                             |
| <b>Available-for-sale investments</b>                                    |                                                |                                             |
| <b>Debt</b>                                                              |                                                |                                             |
| Quoted                                                                   | 1,188,531                                      | 662,378                                     |
| Unquoted                                                                 | 320,534                                        | 233,873                                     |
|                                                                          | <u>1,509,065</u>                               | <u>896,251</u>                              |
| <b>Equity</b>                                                            |                                                |                                             |
| Quoted                                                                   | 322,390                                        | 355,342                                     |
| Unquoted                                                                 | 121,053                                        | 116,366                                     |
|                                                                          | <u>443,443</u>                                 | <u>471,708</u>                              |
| <b>Total available-for-sale investments</b>                              | <u>1,952,508</u>                               | <u>1,367,959</u>                            |
| <b>Investment in bullion</b>                                             | 622                                            | 501                                         |
| <b>Total investments</b>                                                 | <u><u>2,032,774</u></u>                        | <u><u>1,467,209</u></u>                     |

Investment in bullion represents an investment in physical gold. The Group has assessed the fair value of this investment and reversed the impairment amounting to AED 121 thousand for the period (2015: impairment loss of AED 40 thousand).

|                              | 30 September<br>2016<br>AED'000<br>(Unaudited) | 31 December<br>2015<br>AED'000<br>(Audited) |
|------------------------------|------------------------------------------------|---------------------------------------------|
| <b>Debt investments:</b>     |                                                |                                             |
| Domestic                     | 709,343                                        | 657,594                                     |
| Regional                     | 65,627                                         | 25,367                                      |
| International                | 803,536                                        | 307,866                                     |
|                              | <u>1,578,506</u>                               | <u>990,827</u>                              |
| <b>Equity investments:</b>   |                                                |                                             |
| Domestic                     | 76,815                                         | 94,585                                      |
| Regional                     | 7,980                                          | 13,826                                      |
| International                | 368,851                                        | 367,470                                     |
|                              | <u>453,646</u>                                 | <u>475,881</u>                              |
| <b>Investment in bullion</b> | 622                                            | 501                                         |
|                              | <u><u>2,032,774</u></u>                        | <u><u>1,467,209</u></u>                     |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**5 INVESTMENTS (Continued)**

Part of the proprietary investment portfolio of the Group having a carrying value of AED 413,211 thousand (2015: Nil) is pledged as collateral with banks against credit facilities amounting to AED 310,520 thousand (2015: Nil).

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 September 2016, the Bank held the following investments measured as follows:

|                       | <i>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>Investments carried at fair value</i>   |                                            |                                            | <i>Investments<br/>carried<br/>at cost<br/>AED'000<br/>(Unaudited)</i> |
|-----------------------|----------------------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------------------|------------------------------------------------------------------------|
|                       |                                                          | <i>Level 1<br/>AED'000<br/>(Unaudited)</i> | <i>Level 2<br/>AED'000<br/>(Unaudited)</i> | <i>Level 3<br/>AED'000<br/>(Unaudited)</i> |                                                                        |
| Debt investments:     |                                                          |                                            |                                            |                                            |                                                                        |
| Domestic              | 709,343                                                  | 388,809                                    | -                                          | 17,299                                     | 303,235                                                                |
| Regional              | 65,627                                                   | 65,627                                     | -                                          | -                                          | -                                                                      |
| International         | 803,536                                                  | 803,536                                    | -                                          | -                                          | -                                                                      |
| Equity investments:   |                                                          |                                            |                                            |                                            |                                                                        |
| Domestic              | 76,815                                                   | 59,514                                     | -                                          | 17,301                                     | -                                                                      |
| Regional              | 7,980                                                    | 7,980                                      | -                                          | -                                          | -                                                                      |
| International         | 368,851                                                  | 243,985                                    | 96,055                                     | 28,811                                     | -                                                                      |
| Investment in bullion | 622                                                      | 622                                        | -                                          | -                                          | -                                                                      |
|                       | <u>2,032,774</u>                                         | <u>1,570,073</u>                           | <u>96,055</u>                              | <u>63,411</u>                              | <u>303,235</u>                                                         |

As at 31 December 2015, the Group held the following investments measured as follows:

|                       | <i>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> | <i>Investments carried at fair value</i> |                                          |                                          | <i>Investments<br/>carried<br/>at cost<br/>AED'000<br/>(Audited)</i> |
|-----------------------|-------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|----------------------------------------------------------------------|
|                       |                                                       | <i>Level 1<br/>AED'000<br/>(Audited)</i> | <i>Level 2<br/>AED'000<br/>(Audited)</i> | <i>Level 3<br/>AED'000<br/>(Audited)</i> |                                                                      |
| Debt investments:     |                                                       |                                          |                                          |                                          |                                                                      |
| Domestic              | 657,594                                               | 372,569                                  | -                                        | -                                        | 285,025                                                              |
| Regional              | 25,367                                                | 25,367                                   | -                                        | -                                        | -                                                                    |
| International         | 307,866                                               | 298,471                                  | 9,395                                    | -                                        | -                                                                    |
| Equity investments:   |                                                       |                                          |                                          |                                          |                                                                      |
| Domestic              | 94,585                                                | 76,620                                   | -                                        | 17,965                                   | -                                                                    |
| Regional              | 13,826                                                | 13,826                                   | -                                        | -                                        | -                                                                    |
| International         | 367,470                                               | 253,991                                  | 84,137                                   | 29,342                                   | -                                                                    |
| Investment in bullion | 501                                                   | 501                                      | -                                        | -                                        | -                                                                    |
|                       | <u>1,467,209</u>                                      | <u>1,041,345</u>                         | <u>93,532</u>                            | <u>47,307</u>                            | <u>285,025</u>                                                       |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**5 INVESTMENTS (continued)**

Investments amounting to AED 7,353 thousand (2015: Nil) was transferred from Level 2 to Level 1 during the current period. The transfers from Level 2 to Level 1 were made as the market in respect of these securities was considered to be active again. Investment under Level 2 fair value hierarchy is valued using latest available asset value.

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

|                                                               | <i>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> |
|---------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|
| At the beginning of the period                                | 47,307                                                   | 17,898                                                |
| Transfer from Level 2                                         | -                                                        | 29,494                                                |
| Transfer from investment carried at cost                      | 17,299                                                   | -                                                     |
| Net realised loss transferred to income statement on disposal | -                                                        | (33)                                                  |
| Net unrealised gain recognised in other comprehensive income  | 79                                                       | 79                                                    |
| Disposals                                                     | (1,274)                                                  | (131)                                                 |
| At the end of the period                                      | <u>63,411</u>                                            | <u>47,307</u>                                         |

The Group has assessed the sensitivity of the fair value measurement of investments under level 3 due to changes in inputs used. Based on the assessment, no major changes in the fair value of investments under level 3 are noted as at 31 December 2015. Such an assessment is performed on an annual basis by reviewing the changes in unobservable inputs which might result in higher or lower fair value measurement.

**6 DUE TO BANKS**

|                      | <i>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> |
|----------------------|----------------------------------------------------------|-------------------------------------------------------|
| Term placement       | 174,076                                                  | 30,000                                                |
| Overdraft facility   | 971                                                      | 4,402                                                 |
| Repurchase agreement | 266,444                                                  | -                                                     |
|                      | <u>441,491</u>                                           | <u>34,402</u>                                         |

The Group has borrowed an amount of AED 266,444 thousand (2015: Nil) under repurchase agreements, whereby the Group's investments in certain bonds with a carrying value of AED 284,338 thousand (2015: Nil) as at 30 September 2016 are pledged as collateral under these placements.

The Group has also borrowed an amount of AED 44,076 thousand (2015: Nil) under term placements, whereby the Group's investments in certain bonds with a carrying value of AED 128,873 thousand (2015: Nil) as at 30 September 2016 are pledged as collateral under these placements.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

## 7 INTEREST INCOME

|                    | <i>Nine months ended 30 September</i>               |                                                     |
|--------------------|-----------------------------------------------------|-----------------------------------------------------|
|                    | <b>2016</b><br><b>AED'000</b><br><b>(Unaudited)</b> | <b>2015</b><br><b>AED'000</b><br><b>(Unaudited)</b> |
| Loans and advances | 25,520                                              | 25,419                                              |
| Bank placements    | 2,360                                               | 1,697                                               |
|                    | <b>27,880</b>                                       | <b>27,116</b>                                       |

## 8 NET INCOME FROM INVESTMENTS

|                                                                                                        | <i>Nine months ended 30 September</i>               |                                                     |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
|                                                                                                        | <b>2016</b><br><b>AED'000</b><br><b>(Unaudited)</b> | <b>2015</b><br><b>AED'000</b><br><b>(Unaudited)</b> |
| Interest income on investments in debt instruments                                                     | 28,606                                              | 23,974                                              |
| Net realised gain on disposal of available-for-sale investments                                        | 12,947                                              | 33,672                                              |
| Net realised gain on disposal of investment securities designated as fair value through profit or loss | 198                                                 | -                                                   |
| Net un-realised gain/(loss) from investment securities designated as fair value through profit or loss | 1,301                                               | (187)                                               |
| Dividend income                                                                                        | 12,523                                              | 11,739                                              |
| Portfolio management fee paid to other financial institutions                                          | (2,892)                                             | (1,272)                                             |
|                                                                                                        | <b>52,683</b>                                       | <b>67,926</b>                                       |

## 9 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share of AED 36.19 is calculated by dividing the profit attributable to the equity holders of the parent of AED 25,335 thousand for the nine months period ended 30 September 2016 (30 September 2015: AED 29,506 thousand) by the weighted average number of shares outstanding during the period of 700,000 of AED 100 each (30 September 2015: 700,000 shares of AED 100 each).

The figure for basic and diluted earnings per share is the same as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

## 10 SEGMENTAL ANALYSIS

For operating purposes, the Group is organised into two major business segments: (a) Investments, which is principally involved in managing the Group's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages clients' investment portfolios, provides credit facilities, accepts deposits from corporate and individual customers and provides advisory services on corporate finance and capital market transactions. These segments are the basis on which the Group reports its primary 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.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

## 10 SEGMENTAL ANALYSIS (continued)

|                          | <i>Investments</i>                        |                    | <i>Banking Services</i>                   |                    | <i>Total</i>                              |                    |
|--------------------------|-------------------------------------------|--------------------|-------------------------------------------|--------------------|-------------------------------------------|--------------------|
|                          | <i>Nine months ended<br/>30 September</i> |                    | <i>Nine months ended<br/>30 September</i> |                    | <i>Nine months ended<br/>30 September</i> |                    |
|                          | <i>2016</i>                               | <i>2015</i>        | <i>2016</i>                               | <i>2015</i>        | <i>2016</i>                               | <i>2015</i>        |
|                          | <i>AED'000</i>                            | <i>AED'000</i>     | <i>AED'000</i>                            | <i>AED'000</i>     | <i>AED'000</i>                            | <i>AED'000</i>     |
|                          | <i>(Unaudited)</i>                        | <i>(Unaudited)</i> | <i>(Unaudited)</i>                        | <i>(Unaudited)</i> | <i>(Unaudited)</i>                        | <i>(Unaudited)</i> |
| Revenue *                | 42,062                                    | 64,995             | 72,786                                    | 39,269             | 114,848                                   | 104,264            |
| Inter-segment adjustment | (12,844)                                  | (2,107)            | 12,844                                    | 2,107              | -                                         | -                  |
|                          | <u>29,218</u>                             | <u>62,888</u>      | <u>85,630</u>                             | <u>41,376</u>      | <u>114,848</u>                            | <u>104,264</u>     |
| Profit for the period    | <u>8,360</u>                              | <u>26,147</u>      | <u>17,154</u>                             | <u>3,359</u>       | <u>25,514</u>                             | <u>29,506</u>      |

\* Revenue comprises of interest income, net income from investments, other income and exchange gain-net less impairment loss on investments and impairment provision on investments.

|                                | <i>Investments</i>  |                    | <i>Banking Services</i> |                    | <i>Total</i>        |                    |
|--------------------------------|---------------------|--------------------|-------------------------|--------------------|---------------------|--------------------|
|                                | <i>30 September</i> | <i>31 December</i> | <i>30 September</i>     | <i>31 December</i> | <i>30 September</i> | <i>31 December</i> |
|                                | <i>2016</i>         | <i>2015</i>        | <i>2016</i>             | <i>2015</i>        | <i>2016</i>         | <i>2015</i>        |
|                                | <i>AED'000</i>      | <i>AED'000</i>     | <i>AED'000</i>          | <i>AED'000</i>     | <i>AED'000</i>      | <i>AED'000</i>     |
|                                | <i>(Unaudited)</i>  | <i>(Audited)</i>   | <i>(Unaudited)</i>      | <i>(Audited)</i>   | <i>(Unaudited)</i>  | <i>(Audited)</i>   |
| Segment assets                 | <u>3,785,188</u>    | <u>3,271,185</u>   | <u>826,527</u>          | <u>297,238</u>     | <u>4,611,715</u>    | <u>3,568,423</u>   |
| Segment liabilities and equity | <u>530,960</u>      | <u>821,160</u>     | <u>4,080,755</u>        | <u>2,747,263</u>   | <u>4,611,715</u>    | <u>3,568,423</u>   |

## 11 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has the following credit related contingent liabilities and commitments:

|                                         | <i>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> |
|-----------------------------------------|----------------------------------------------------------|-------------------------------------------------------|
| Guarantees                              | 41,692                                                   | 44,086                                                |
| Unutilised committed credit facilities* | 110,995                                                  | 53,049                                                |
|                                         | <u>152,687</u>                                           | <u>97,135</u>                                         |

The Group has commitments of AED 19,500 thousand (2015: Nil) on account of available-for-sale investments.

\* Unutilised committed credit facilities represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent exact future cash requirements.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**11 COMMITMENTS AND CONTINGENT LIABILITIES (continued)***Operating lease commitments:*

|                                                                                     | <b>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</b> | <b>31 December<br/>2015<br/>AED'000<br/>(Audited)</b> |
|-------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|
| Future minimum lease payments                                                       |                                                          |                                                       |
| Within one year                                                                     | 3,518                                                    | 1,768                                                 |
| After one year but not more than five years                                         | 17,133                                                   | 963                                                   |
|                                                                                     | <u>20,651</u>                                            | <u>2,731</u>                                          |
| Total operating lease expenditure contracted for at the end of the reporting period | <u>20,651</u>                                            | <u>2,731</u>                                          |

**12 RELATED PARTY TRANSACTIONS**

The Group enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The significant balances outstanding in respect of related parties included in the interim condensed consolidated financial statements are as follows:

|                                                                       | <b>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</b> | <b>31 December<br/>2015<br/>AED'000<br/>(Audited)</b> |
|-----------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|
| <i>Directors, their related parties and key management personnel:</i> |                                                          |                                                       |
| Loans and advances                                                    | 4,951                                                    | 5,593                                                 |
| Investments                                                           | 303,235                                                  | 267,827                                               |
| Customers' deposits                                                   | 668,028                                                  | 730,186                                               |
| Commitments and contingencies                                         | 28,969                                                   | 36,162                                                |
| Other liabilities                                                     | 12,412                                                   | 5,872                                                 |
| Other assets                                                          | 40,075                                                   | -                                                     |

The income and expenses in respect of related parties included in the interim condensed consolidated financial statements are as follows:

|                                                                       | <i>Nine months ended 30 September</i>   |                                         |
|-----------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
|                                                                       | <b>2016<br/>AED'000<br/>(Unaudited)</b> | <b>2015<br/>AED'000<br/>(Unaudited)</b> |
| <i>Directors, their related parties and key management personnel:</i> |                                         |                                         |
| Interest income                                                       | 2,952                                   | 2,500                                   |
| Interest expenses                                                     | 12,193                                  | 15,996                                  |
| Other income                                                          | 2,382                                   | 1,183                                   |
| General and administration expenses                                   | 3,766                                   | 2,538                                   |

Outstanding balances at the period end arise in the normal course of business. For the period ended 30 September 2016, the Group has not recorded any impairment of amounts owed by related parties (2015: Nil).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**12 RELATED PARTY TRANSACTIONS (continued)****Compensation of key management personnel:**

|                             | <i>Nine months ended 30 September</i>   |                                         |
|-----------------------------|-----------------------------------------|-----------------------------------------|
|                             | <i>2016<br/>AED'000<br/>(Unaudited)</i> | <i>2015<br/>AED'000<br/>(Unaudited)</i> |
| Salaries and other benefits | <u>8,446</u>                            | <u>7,462</u>                            |

**13 DERIVATIVE FINANCIAL INSTRUMENTS**

In the ordinary course of business the Group enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The purpose of derivative financial instruments in the Group's business is to mitigate the risks arising from default, currency and interest fluctuations and other market variables. The Group uses forward foreign exchange contracts and options to mitigate the currency risk on certain investments.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with the notional amounts. The notional amount, recorded gross is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are neither indicative of the market risk nor credit risk.

|                                    | <i>Positive<br/>fair value<br/>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>Negative<br/>fair value<br/>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>Notional<br/>amount<br/>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>Positive<br/>fair value<br/>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> | <i>Negative<br/>fair value<br/>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> | <i>Notional<br/>amount<br/>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> |
|------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| <b>Derivatives:</b>                |                                                                                      |                                                                                      |                                                                                  |                                                                                   |                                                                                   |                                                                               |
| Forward foreign exchange contracts | 2,469                                                                                | 1,533                                                                                | 374,652                                                                          | 1,626                                                                             | 2,897                                                                             | 350,673                                                                       |
| Foreign exchange option contracts  | 310                                                                                  | 310                                                                                  | 150,157                                                                          | -                                                                                 | 4                                                                                 | 1,816                                                                         |
|                                    | <u>2,779</u>                                                                         | <u>1,843</u>                                                                         | <u>524,809</u>                                                                   | <u>1,626</u>                                                                      | <u>2,901</u>                                                                      | <u>352,489</u>                                                                |

Derivative financial instruments include forward foreign exchange contracts and option contracts. These instruments are entered into for a period of up to five years.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have an impact on the profit or loss of the Group. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

***Derivative product type******Forwards***

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in over-the-counter markets.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2016 (Unaudited)

**13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)***Options*

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

*Fair value*

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Group's best estimate of the most appropriate model inputs.

Foreign exchange forward contracts and foreign exchange option contracts are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.

*Derivative related credit risk*

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation, but the counterparty fails to deliver the counter value.

Changes in counterparty credit risk have no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

All the foreign exchange contracts are recorded at fair value under level 2 of the fair value hierarchy.

**14 DIVIDENDS**

In the annual general meeting on 16 March 2016, the shareholders ratified the board of directors' recommendation not to pay dividend. Accordingly the share capital remains unchanged at AED 70,000 thousand (2015: scrip dividend of 7.692% of the paid up share capital amounting to AED 5,000 thousand was issued on 29 March 2015).

**15 FIDUCIARY ASSETS**

|                             | <i>30 September<br/>2016<br/>AED'000<br/>(Unaudited)</i> | <i>31 December<br/>2015<br/>AED'000<br/>(Audited)</i> |
|-----------------------------|----------------------------------------------------------|-------------------------------------------------------|
| Balance of fiduciary assets | <b>8,525,245</b>                                         | 6,043,123                                             |

The Group provides custody services for its customers' investments. These investments are held by the Group in a fiduciary capacity and are, accordingly, not included in these interim condensed consolidated financial statements as assets of the Group.