

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2017 (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”), and its subsidiary (together the “Group”), as at 31 March 2017 and the related interim condensed consolidated statements of income, comprehensive income, cash flows and changes in equity for the three months 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



Anthony O'Sullivan
Partner
Registration No. 687

1 May 2017

Dubai, United Arab Emirates

Emirates Investment Bank P.J.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT
OF FINANCIAL POSITION

As at 31 March 2017

		31 March 2017 AED'000 (Unaudited)	31 December 2016 AED'000 (Audited)
	Notes		
ASSETS			
Cash and balances with UAE Central Bank		312,799	354,124
Due from banks	3	1,044,394	1,305,217
Loans and advances, net	4	1,076,742	823,986
Investments, net	5	2,413,913	2,154,709
Investment in an associate		72	72
Property and equipment		5,603	5,898
Other assets		34,497	29,190
TOTAL ASSETS		4,888,020	4,673,196
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	6	950,543	705,133
Customer deposits		3,354,798	3,430,356
Other liabilities		60,093	70,062
TOTAL LIABILITIES		4,365,434	4,205,551
EQUITY			
Share capital		70,000	70,000
Legal reserve		35,000	35,000
Special reserve		35,154	35,154
Cumulative changes in fair values		25,537	14,458
Retained earnings		224,940	209,036
Equity attributable to equity holders of the parent		390,631	363,648
Non-controlling interests		131,955	103,997
TOTAL EQUITY		522,586	467,645
TOTAL LIABILITIES & EQUITY		4,888,020	4,673,196

The interim condensed consolidated financial statements were approved by the Board of Directors on 1 May 2017 and signed on its behalf by:


Marwan Shehadeh
(Director)


Khaled Sifri
(Chief Executive Officer)

The attached notes 1 to 14 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 31 March 2017 (Unaudited)

	<i>Notes</i>	<i>Three months ended 31 March</i>	
		2017 AED'000	2016 AED'000
Interest income	7	15,786	6,908
Net income from investments	8	20,366	15,312
		36,152	22,220
Interest expense		(8,417)	(8,285)
NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS		27,735	13,935
Fee, commission and other income		19,422	8,035
Exchange gain- net		716	1,589
OPERATING INCOME		47,873	23,559
General and administrative expenses		(23,347)	(17,886)
Impairment loss on available-for-sale investments		-	(126)
Impairment provision on investments		(8,000)	-
Impairment reversal on investment in bullion		43	81
Impairment loss on loans and advances		-	(750)
OPERATING EXPENSES		(31,304)	(18,681)
PROFIT FOR THE PERIOD		16,569	4,878
Attributable to:			
Equity holders of the parent		15,904	4,878
Non-controlling interests		665	-
PROFIT FOR THE PERIOD		16,569	4,878
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in AED)	9	22.72	6.97

The attached notes 1 to 14 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 31 March 2017 (Unaudited)

	<i>Note</i>	<i>Three months ended 31 March</i>	
		<i>2017</i> <i>AED'000</i>	<i>2016</i> <i>AED'000</i>
PROFIT FOR THE PERIOD		16,569	4,878
Other comprehensive income/ (loss) to be reclassified to income statement in subsequent periods			
Net unrealised gain/ (loss) on available-for-sale investments		12,945	(5,943)
Net realised gain transferred to income statement on disposal of available-for-sale investments	8	(1,866)	(845)
Impairment of available-for-sale investments recognised in the income statement		-	126
Other comprehensive income/ (loss) for the period		11,079	(6,662)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD		27,648	(1,784)
Attributable to:			
Equity holders of the parent		26,983	(1,784)
Non-controlling interests		665	-
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD		27,648	(1,784)

The attached notes 1 to 14 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 31 March 2017 (Unaudited)

	<i>Three months ended 31</i>	
	<i>March</i>	
	<i>2017</i>	<i>2016</i>
	<i>AED '000</i>	<i>AED '000</i>
OPERATING ACTIVITIES		
Profit for the period	16,569	4,878
Adjustments for:		
Depreciation	507	538
Impairment loss on available-for-sale investments	-	126
Impairment provision on investments	8,000	-
Impairment reversal on investment in bullion	(43)	(81)
Impairment loss on loans and advances	-	750
Change in due to bank with original maturities of over three months	-	100,000
Change in due from bank with original maturities of over three months	47,040	-
Change in loans and advances (net)	(252,756)	(55,391)
Change in investments (net)	(256,082)	(138,630)
Change in other assets	(5,307)	(1,905)
Change in customers' deposits	(75,558)	(139,941)
Change in other liabilities	(9,969)	(4,602)
Net cash used in operating activities	(527,599)	(234,258)
INVESTING ACTIVITIES		
Purchase of property and equipment	(212)	(704)
Net cash used in investing activities	(212)	(704)
FINANCING ACTIVITIES		
Funds from non-controlling interests	27,293	-
Net cash from financing activities	27,293	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(500,518)	(234,962)
Cash and cash equivalents at 1 January	847,761	1,735,868
CASH AND CASH EQUIVALENTS AT 31 MARCH	347,243	1,500,906
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	312,799	425,127
Due from banks	884,987	1,125,405
Due to banks	(850,543)	(49,626)
	347,243	1,500,906
Operational cash flows from interest and dividends		
Interest paid	12,960	7,993
Interest received (including from investments)	26,193	12,090
Dividends received	3,683	6,514

The attached notes 1 to 14 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 31 March 2017 (Unaudited)

	Share capital AED '000 (Unaudited)	Legal reserve AED '000 (Unaudited)	Special reserve AED '000 (Unaudited)	Cumulative changes in fair value AED '000 (Unaudited)	Retained earnings AED '000 (Unaudited)	Total AED '000 (Unaudited)	Non- controlling interests AED '000 (Unaudited)	Total AED '000 (Unaudited)
At 1 January 2017	70,000	35,000	35,154	14,458	209,036	363,648	103,997	467,645
Profit for the period	-	-	-	-	15,904	15,904	665	16,569
Other comprehensive income for the period	-	-	-	11,079	-	11,079	-	11,079
Total comprehensive income for the period	-	-	-	11,079	15,904	26,983	665	27,648
Movement in non-controlling interest	-	-	-	-	-	-	27,293	27,293
Balance at 31 March 2017	70,000	35,000	35,154	25,537	224,940	390,631	131,955	522,586
At 1 January 2016	70,000	35,000	31,797	12,708	178,828	328,333	-	328,333
Profit for the period	-	-	-	-	4,878	4,878	-	4,878
Other comprehensive loss for the period	-	-	-	(6,662)	-	(6,662)	-	(6,662)
Total comprehensive (loss)/income for the period	-	-	-	(6,662)	4,878	(1,784)	-	(1,784)
Balance at 31 March 2016	70,000	35,000	31,797	6,046	183,706	326,549	-	326,549

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

At 31 March 2017 (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. The Bank continues to assess the impact of the new law and intends to be compliant on or before the end of the grace period on 30 June 2017.

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 31 March 2017 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% (2016: 52.85%) of the shares in the Bank.

2 ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group 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 2016.

In addition, results for the three months ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

Basis of consolidation

EIB Enhanced Liquidity Fund Limited (the Company), a SPE in which the Bank exercises control and holds 61% interest as at 31 March 2017 (2016: 66%), 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 fund. 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 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017.

The Group applies, for the first time, certain standards and amendments, which do not have a material impact on the interim condensed consolidated financial statements of the Group. 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 31 March 2017 (Unaudited)

2 ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments (continued)

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ending 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group applied the amendments. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The Group has no impact of these amendments as the Group does not have assets held for sale.

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

3 DUE FROM BANKS

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
Domestic	295,085	485,355
Regional	161,413	161,579
International	587,896	658,283
	<u>1,044,394</u>	<u>1,305,217</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

4 LOANS AND ADVANCES, NET

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
Overdrafts / loans (secured)	1,017,459	836,986
Overdrafts / loans (unsecured)	72,283	-
Gross loans and advances	1,089,742	836,986
Less: collective impairment provision	(13,000)	(13,000)
Loans and advances, net	1,076,742	823,986

At 31 March 2017, 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 2016: 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 13,000 thousand (31 December 2016: AED 13,000 thousand) against risk of default incurred but not yet identified.

5 INVESTMENTS, NET

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
<i>Designated at fair value through profit or loss</i>		
<i>Debt</i>		
Quoted	89,117	78,492
<i>Equity</i>		
Unquoted	33,359	16,842
Total investments designated at fair value through profit or loss	122,476	95,334
<i>Available-for-sale investments</i>		
<i>Debt</i>		
Quoted	1,383,264	1,210,034
Unquoted	460,824	438,083
	1,844,088	1,648,117
<i>Equity</i>		
Quoted	315,865	272,865
Unquoted	154,397	153,349
	470,262	426,214
Total available-for-sale investments	2,314,350	2,074,331
Investment in bullion	587	544
Gross investments	2,437,413	2,170,209
Less: impairment provision	(23,500)	(15,500)
Investments, net	2,413,913	2,154,709

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

5 INVESTMENTS, NET (continued)

Investment in bullion represents investment in physical gold which is being carried at impaired cost. The Group has assessed the fair value of this investment and reversed the impairment provision amounting to AED 43 thousand for the period (period ended 31 March 2016: impairment reversal of AED 81 thousand).

Towards compliance with the directive of the Central Bank of UAE, the Group has determined a collective impairment provision of AED 23,500 thousand (2016: AED 15,500 thousand) against investments.

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
<i>Debt investments:</i>		
Domestic	839,348	835,705
Regional	95,636	76,407
International	998,221	814,497
	<u>1,933,205</u>	<u>1,726,609</u>
<i>Equity investments:</i>		
Domestic	65,101	67,253
Regional	24,721	25,058
International	413,799	350,745
	<u>503,621</u>	<u>443,056</u>
Investment in bullion	<u>587</u>	<u>544</u>
Gross investments	2,437,413	2,170,209
Less: impairment provision	(23,500)	(15,500)
Investments, net	<u><u>2,413,913</u></u>	<u><u>2,154,709</u></u>

Part of the proprietary investment portfolio of the Group having a carrying value of AED 993,813 thousand (2016: AED 698,546 thousand) is pledged as collateral with banks against credit facilities amounting to AED 804,251 thousand (2016: AED 555,767 thousand) as at reporting date.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

5 INVESTMENTS, NET (continued)

As at 31 March 2017, the Group held the following investments measured as follows:

	31 March 2017 AED '000 (Unaudited)	<i>Investments carried at fair value</i>			<i>Investments carried at cost AED '000 (Unaudited)</i>
		Level 1 AED '000 (Unaudited)	Level 2 AED '000 (Unaudited)	Level 3 AED '000 (Unaudited)	
Debt investments:					
Domestic	839,348	378,525	-	17,299	443,524
Regional	95,636	95,636	-	-	-
International	998,221	998,221	-	-	-
Equity investments:					
Domestic	65,101	52,686	-	12,415	-
Regional	24,721	6,356	18,365	-	-
International	413,799	250,816	134,223	28,760	-
Investment in bullion	587	587	-	-	-
Gross investments	2,437,413	1,782,827	152,588	58,474	443,524
Less: impairment provision	(23,500)				
	<u>2,413,913</u>				

As at 31 December 2016, the Group held the following investments measured as follows:

	31 December 2016 AED '000	<i>Investments carried at fair value</i>			<i>Investments carried at cost AED '000</i>
		Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	
Debt investments:					
Domestic	835,705	397,622	-	17,299	420,784
Regional	76,407	76,407	-	-	-
International	814,497	814,497	-	-	-
Equity investments:					
Domestic	67,253	54,838	-	12,415	-
Regional	25,058	6,693	18,365	-	-
International	350,745	205,328	116,440	28,977	-
Investment in bullion	544	544	-	-	-
Gross investments	2,170,209	1,555,929	134,805	58,691	420,784
Less: impairment provision	(15,500)				
	<u>2,154,709</u>				

Investments amounting to Nil (2016: AED 7,353 thousand) were transferred from Level 2 to Level 1. The transfers from Level 2 to Level 1 were made as the market in respect of these securities was considered to be active again. Investments under Level 2 fair value hierarchy are valued using latest available asset value.

Investments amounting to AED 217 thousand (2016: Nil) were transferred from Level 3 to Level 2. The transfers from Level 3 to Level 2 were made when the market for some securities become more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Since the transfer, these investments have been valued using valuation models incorporating observable market inputs.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
At 31 March 2017 (Unaudited)

5 INVESTMENTS, NET (continued)

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

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
At the beginning of the period	58,691	47,307
Transfer to level 2	(217)	-
Transfer from investments carried at cost	-	17,299
Total gains/ (losses)		
-in income statement	-	3,282
-in other comprehensive income	-	264
Disposals	-	(9,461)
At the end of the period	<u>58,474</u>	<u>58,691</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 March 2017. Such an assessment is performed on an annual basis by observing the changes in unobservable inputs which might result in higher or lower fair value measurement.

6 DUE TO BANKS

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
Term placement	659,220	593,106
Balances from correspondent banks	1,292	4,366
Repurchase agreements	290,031	107,661
	<u>950,543</u>	<u>705,133</u>

The Group has borrowed an amount of AED 290,031 thousand (2016: AED 107,661 thousand) under repurchase agreements, whereby the Group's investments in certain bonds with a carrying value of AED 302,303 thousand (2016: AED 117,168 thousand) as at 31 March 2017 are pledged as collateral under these agreements.

The Group has borrowed an amount of AED 514,220 thousand (2016: AED 448,106 thousand) under term placements, whereby the Group's investments in certain bonds with a carrying value of AED 691,510 thousand (2016: AED 581,378 thousand) as at 31 March 2017 are pledged as collateral under these placements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

7 INTEREST INCOME

	<i>Three months ended 31 March</i>	
	<i>2017</i> <i>AED'000</i> <i>(Unaudited)</i>	<i>2016</i> <i>AED'000</i> <i>(Unaudited)</i>
Loans and advances	14,348	5,858
Bank placements	1,438	1,050
	<u>15,786</u>	<u>6,908</u>

8 NET INCOME FROM INVESTMENTS

	<i>Three months ended 31 March</i>	
	<i>2017</i> <i>AED'000</i> <i>(Unaudited)</i>	<i>2016</i> <i>AED'000</i> <i>(Unaudited)</i>
Interest income on investments in debt instruments	14,478	8,016
Net realised gain on disposal of available-for-sale investments	1,866	845
Net un-realised gain from investment securities designated as fair value through profit or loss	761	686
Net realised loss from investment securities designated as fair value through profit or loss	(75)	-
Dividend income	3,683	6,514
Portfolio management fee paid to other financial institutions	(347)	(749)
	<u>20,366</u>	<u>15,312</u>

9 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share of AED 22.72 is calculated by dividing the profit attributable to the equity holders of the parent of AED 15,904 thousand for the three months period ended 31 March 2017 (31 March 2016: AED 4,878 thousand) by the weighted average number of shares outstanding during the period of 700,000 of AED 100 each (31 March 2016: 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 client's investment portfolio, provides credit facilities, accepts deposit 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 31 March 2017 (Unaudited)

10 SEGMENTAL ANALYSIS (continued)

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>Three months ended</i>		<i>Three months ended</i>		<i>Three months ended</i>	
	<i>31 March</i>		<i>31 March</i>		<i>31 March</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</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 *	17,233	18,086	31,100	13,713	48,333	31,799
Inter-segment adjustment	653	(7,055)	(653)	7,055	-	-
	<u>17,886</u>	<u>11,031</u>	<u>30,447</u>	<u>20,768</u>	<u>48,333</u>	<u>31,799</u>
Profit for the period	<u>7,410</u>	<u>3,550</u>	<u>9,159</u>	<u>1,328</u>	<u>16,569</u>	<u>4,878</u>

* Revenue comprises of interest income, net income from investments, fee and commission income and exchange gain-net less impairment loss on investments.

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>31 March</i>	<i>31</i>	<i>31 March</i>	<i>31</i>	<i>31 March</i>	<i>31</i>
	<i>2017</i>	<i>December</i>	<i>2017</i>	<i>December</i>	<i>2017</i>	<i>December</i>
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</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>3,786,475</u>	<u>3,815,602</u>	<u>1,101,545</u>	<u>857,594</u>	<u>4,888,020</u>	<u>4,673,196</u>
Segment liabilities and equity	<u>1,118,702</u>	<u>818,329</u>	<u>3,769,318</u>	<u>3,854,867</u>	<u>4,888,020</u>	<u>4,673,196</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

11 COMMITMENTS AND CONTINGENT LIABILITIES

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

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
Guarantees	49,234	39,042
Unutilised committed credit facilities*	136,147	81,091
	<u>185,381</u>	<u>120,133</u>

The Group has commitments of AED 27,584 thousand on account of available-for-sale investments (2016: AED 16,874 thousand).

* 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. As 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.

Capital expenditure commitments:

The Group has commitments as at 31 March 2017 for leasehold improvements of AED 863 thousand (2016: nil).

Operating lease commitments:

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
Future minimum lease payments		
Within one year	3,518	3,518
After one year but not more than five years	15,494	16,149
Total operating lease expenditure contracted for at the end of the reporting period	<u>19,012</u>	<u>19,667</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. Pricing policies and terms of related parties' transactions are approved by the Group's management.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

12 RELATED PARTY TRANSACTIONS (continued)

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

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	26,462	4,716
Investments	443,524	420,784
Customers' deposits	449,921	467,007
Commitments and contingencies	36,466	26,274
Other liabilities	8,083	13,029

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

	<i>Three months ended 31 March</i>	
	<i>2017 AED'000 (Unaudited)</i>	<i>2016 AED'000 (Unaudited)</i>
<i>Directors, their related parties and key management personnel:</i>		
Interest income	2,292	891
Interest expenses	(3,000)	(4,337)
Fee, commission and other income	553	808
General and administration expenses	(1,695)	(1,210)

Outstanding balances at the period-end arise in the normal course of business. For the period ended 31 March 2017, the Group has not recorded any impairment of amounts owed by related parties (2016: Nil).

Compensation of key management personnel:

	<i>Three months ended 31 March</i>	
	<i>2017 AED'000 (Unaudited)</i>	<i>2016 AED'000 (Unaudited)</i>
Salaries and other benefits	2,577	2,785

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

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 fair value 31 March 2017 AED'000 (Unaudited)</i>	<i>Negative fair value 31 March 2017 AED'000 (Unaudited)</i>	<i>Notional amount 31 March 2017 AED'000 (Unaudited)</i>	<i>Positive fair value 31 December 2016 AED'000 (Audited)</i>	<i>Negative fair value 31 December 2016 AED'000 (Audited)</i>	<i>Notional amount 31 December 2016 AED'000 (Audited)</i>
Derivative:						
Forward foreign exchange contracts	2,221	1,429	359,399	1,949	1,811	122,139
Foreign exchange option contracts	422	422	280,878	153	153	152,088
	<u>2,643</u>	<u>1,851</u>	<u>640,277</u>	<u>2,102</u>	<u>1,964</u>	<u>274,227</u>

Derivative financial instruments include forward foreign exchange contracts and option contracts. These instruments are entered into for a period of upto 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 market.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 favourable to the Group. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation, but the counterparty fails to deliver the counter value.

The changes in counterparty credit risk had 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 FIDUCIARY ASSETS

	<i>31 March 2017 AED'000 (Unaudited)</i>	<i>31 December 2016 AED'000 (Audited)</i>
Balance of fiduciary assets	<u>5,257,649</u>	<u>6,958,020</u>

The Group provides custody services for its customers' assets. These assets 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.